

**METROPOLITAN GOVERNMENT OF  
NASHVILLE AND DAVIDSON  
COUNTY**

**INTERNAL AUDIT SECTION**



**PERFORMANCE AUDIT OF THE**

**FARMER'S MARKET**

**AUDIT REPORT – AUGUST 16, 2005**

Metropolitan Government of Nashville and Davidson County

Internal Audit Section

Report on Farmer's Market

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Metropolitan Government of Nashville and Davidson County

Internal Audit Section

Report on Farmer's Market

**Section I**

**Report of Internal Audit Section**

**BILL PURCELL  
MAYOR**



**DEPARTMENT OF FINANCE  
INTERNAL AUDIT SECTION**

**METROPOLITAN  
GOVERNMENT OF NASHVILLE  
AND DAVIDSON COUNTY**

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August 16, 2005

Mr. Jeff Themm, Director  
Farmer's Market  
Farmer's Market Board  
900 Eighth Avenue North  
Nashville, TN 37208

### **Report of Internal Audit Section**

Dear Mr. Themm and Farmer's Market Board Members:

We are in the process of conducting a performance audit of Farmer's Market. We are performing this audit in two stages. The first stage focused on reviewing procedures and controls surrounding financial and other operations. The second stage will more thoroughly address performance compared to peers and industry best practices. *Government Auditing Standards* issued by the Comptroller of the United States define performance audits as follows:

Performance audits entail an objective and systematic examination of evidence to provide an independent assessment of the performance and management of a program against objective criteria as well as assessments that provide a prospective focus or that synthesize information on best practices or cross-cutting issues. Performance audits provide information to improve program operations and facilitate decision-making by parties with responsibility to oversee or initiate corrective action, and improve public accountability.

A performance audit is different than a financial statement audit, which is limited to auditing financial statements and controls, without reviewing operations and performance.

## **Background**

The mission of the Farmers Market is to provide a diverse collection of fresh and highest quality foods in an atmosphere that provides a unique shopping experience with an emphasis on Tennessee. Also, the Farmers Market has a weekend flea market.

The Farmers Market Director reports to the Farmers Market Commission. The Farmers Market has a total of eight budgeted full-time positions. The following is a summary of the FY 04 budget:

### **Revenues & Transfers**

Charges, Commissions, & Fees	\$882,600
Transfers from other Funds & Units	<u>226,900</u>
Total Revenue & Transfers	<u>\$1,139,500</u>

### **Expenditures**

Salaries and fringes	\$316,200
Other Services	527,800
Other Expense	38,600
Pension, Annuity, Debt & Other Costs	<u>256,900</u>
Total Expense & Transfers	<u>\$1,139,500</u>

## **Objectives, Scope and Methodology**

The overall objectives for this performance audit included: (1) Review Farmers Market business processes, (2) Evaluate key operating and financial controls, (3) Identify weaknesses and strengths in processes and control systems, and (4) Develop findings and recommendations for any areas where performance could be improved.

For the purpose of this report, we have classified the processes tested into the following categories:

- Payroll and personnel
- Revenue and Cash Receipts
- Purchasing and Expenditures
- Petty Cash
- Fixed Assets
- Other Areas

The scope of the work included the Farmers Market primary operations and focused on the fiscal year ending June 30, 2004 financial transactions and the calendar year ending

December 30, 2003 for payroll and personnel and the policies and procedures in place during that time.

The methodology employed throughout this audit was one of objectively reviewing various forms of documentation, including written policies and procedures, financial information, and various forms of data, reports and information maintained by the Farmers Market and other Metro Departments. Various aspects of Farmers Market operations were observed, and Farmers Market personnel and other Metro employees and stakeholders were interviewed.

We performed the audit procedures in accordance with generally accepted government auditing standards.

### **Findings and Recommendations**

#### **Payroll/Personnel**

1. The Former Farmers Market Director has earned comp-time which is not in compliance with Civil Service Regulations

Our review of payroll was performed based on the understanding Farmers Market followed Civil Service Regulations even though it is not required to follow them. In a 1997 meeting the manager stated he had decided to use some of the Civil Service payroll and personnel policies.

Our review of time and attendance records indicated the Director of Farmers Market had earned and used compensatory time. Civil Service Rules section 5.7 C states; Top-level management employees are not eligible for overtime or compensatory time off. Top-level management employees are defined in chapter nine of the Civil Service Rules as employees in classifications designated on the job description as ineligible for overtime or compensatory time off. These include, but are not limited to Department Directors and Assistant Directors.

#### **Recommendation:**

Farmers Market should follow Metro Human Resource policies.

2. Annual performance evaluations are not being performed.

Annual performance evaluations have not been performed for the staff at Farmers Market. If annual evaluations are not performed, employees will not receive the necessary feedback to help them develop and improve future performance.

Recommendation:

Each employee's job performance should be evaluated at least on an annual basis. Additional evaluations may be done when necessary. Performing annual evaluations gives employees feedback on their job performance and helps them improve future performance.

3. Two Farmers Market employees vacation accrual is not in compliance with Civil Service Rules.

Civil Service rule 4.6-B Vacation Accrual states; "Vacation may be accrued to an amount equal to three times the employee's current annual accrual rate." Two employees have accrued fifty seven, and fifty three vacation days through December 2003 while the maximum allowed for their period of service is forty five days.

Recommendation:

Management should consult with Metro Human Resources to determine how to resolve this issue. Also, Farmers Market should follow Metro Human Resource polices.

4. Detailed time and attendance records are not being adequately maintained.

During our review of the employee personnel files, it was noted that employee leave was not being adequately documented and approved by management as per the written policy adopted by the Farmers Market. Also, accumulated leave balances were not being maintained for all employees. Inadequately maintained time and attendance records increases the possibility of errors going undetected.

Recommendation:

Detailed time and attendance records should be maintained. This would reduce the possibility of errors going undetected.

5. Payroll is not properly reviewed.

A copy of the time entry register is not retained by the Finance Manager and the detail of the time entry register is not reviewed by the Director prior to being sent to the central payroll section. Also, the payroll register produced by the central payroll section is not reviewed by the Finance Manager. This could result in employees being over or under

paid and time being incorrectly charged without detection. Specific examples encountered during the audit included vacation and sick time not being consistently entered into FASTnet and two employees being overpaid by four hours each.

Recommendation:

Payroll time entry registers should be reviewed by the Director prior to being submitted to the central payroll section, and the payroll registers should also be reviewed by the Director and Finance Manager to verify that amounts paid to employees are correct and charged appropriately in FASTnet.

**Revenue/Cash Receipts**

6. There is inadequate segregation of duties relating to revenue collections.

The Finance Manager was involved in the receipting, collecting, depositing, and recording of revenue. This inadequate segregation of duties, primarily because of the limited number of personnel, presents a risk that errors in revenue collection and reporting could occur without being detected.

Recommendation:

Segregation of duties involving the receipting, collecting, depositing, recording, and reporting of revenue should be implemented as fully as possible given the limited staffing. We recommend that the Administrative Assistant collect payments and issue receipts for rent payments and that the Finance Manager perform the daily reconciliations and complete the deposit. This should reduce the risk that currently exists.

7. The method used to track, record, and reconcile receipts is burdensome and could promote errors.

We tested the months of May and June 2004 and noted two payments that were recorded on the manual exterior worksheet used to track amounts due were not recorded on the receipt summary spreadsheet. Also, we noted numerous discrepancies on the receipt summary spreadsheet when compared to the manual flea market, interior, and exterior rent sheets used to track amounts due.

Recommendation:

The use of manual worksheets should be limited as much as possible. The Farmers Market should update and follow the written operating policies and procedures to reflect

the changes that have occurred with the implementation of FASTnet. Also, daily deposits recorded on the receipt spreadsheet should be reconciled to FASTnet to determine that all receipts collected are deposited.

8. Several current and previous interior vendors have outstanding balances older than 30 days.

There was one current interior vendor who had an outstanding balance for utility bills as of May 2004 that totals \$532.34 and was greater than 30 days old. Also, during the review, additional outstanding balances from previous interior vendors were noted that dated back to 1999. The total amount of these old outstanding balances amounted to \$6,961.

Recommendation:

The Farmers Market should make every effort to collect outstanding balances from current and former vendors.

9. Dry good and freezer storage was miscalculated for some of the interior vendors.

The physical space allocated to some of the interior vendors for dry good and freezer storage was altered by someone without informing the Finance Manager, who is responsible for collecting rent for allocated storage space. This resulted in the Finance Manager incorrectly overcharging and undercharging some interior vendors for storage space. This resulted in a net undercharge of \$520.13.

Recommendation:

Any changes to dry good and freezer storage should be documented and communicated to the Finance Manager to assure interior vendors are correctly charged for storage space. Also, any past billings that resulted in incorrect charges should be corrected.

**Purchasing and Expenditures**

10. The Finance Manager does not have copies of vendor contracts.

The review of expenditures disclosed that the Finance Manager does not have copies of vendor contracts. This could result in payment for goods/services that are not in compliance with contract.

Recommendation:

The Finance Manager should access the central purchasing contract database (Promise) to obtain the needed contracts. Also, if the Finance Manager cannot find the contract or has questions regarding procurement, he should contact Purchasing. The comparison of the vendor invoice to the current contract will ensure that payment for goods/services are in compliance with contract terms. Also, prior to sending the FASTpak to the Division of Accounts, the Director should review the invoices to determine if Metro central purchasing procedures are being followed and whether the purchases were reasonable.

**Petty Cash**

11. The Director does not approve purchases made by the petty cash custodian and does not periodically reconcile the fund.

Oversight of the petty cash fund is limited. The Director does not review/approve the purchases made by the petty cash custodian and does not perform a periodic reconciliation of the petty cash fund. This could result in errors not being detected.

Recommendation:

The Director or his designee should review/approve the purchases made by the petty cash custodian and perform a periodic reconciliation of the petty cash fund. This will help ensure errors will be detected.

12. The petty cash fund is not used often.

The low usage of the petty cash fund does not justify the current petty cash fund balance of \$300. Having an excessive amount of petty cash increases the chance of loss.

Recommendation:

Management should perform an evaluation of the current and future needs of petty cash. Procurement cards can be utilized for most of the small purchases required at the Farmers Market.

## **Fixed Assets**

### 13. The oversight of fixed assets is not adequate.

A current FASTnet inventory of assets is not maintained. Also, the Finance Manager has not always been informed when assets have been disposed. Poor oversight leads to the potential loss or misappropriation of assets.

#### Recommendation:

The oversight of fixed assets should be improved. A physical inventory of fixed assets should be conducted and the FASTnet fixed asset records should be updated. Asset acquisitions and disposals should be coordinated through the Finance Manager. Proper oversight will reduce the potential for assets being misappropriated or lost.

## **Other Areas**

### 14. The amounts and timing of advertising spending by Farmers Market for special promotions should be evaluated.

Farmers Market had an annual advertising budget of \$100,000. It appears most of the special promotions are scheduled during Farmers Market peak operating periods and not during periods of low customer traffic.

#### Recommendation:

Farmers Market should consider a cooperative advertising effort with the vendors at the market sharing the expense of advertising, and having special promotions to increase customer traffic during non-peak operating periods.

## **Cell Phones**

### 15. The department has not clearly defined staff requirements for cell phones.

Farmers Market has not developed a policy for cell phones usage. Our review indicated that a business purpose could not be determined for twenty percent of the calls in our sample. Also, for two of the three months reviewed, one cell phone user went over the plan minutes that resulted in overage charges of \$33.60.

#### Recommendation:

Farmers Market should follow Metro's cell phone policies that became effective on August 1, 2004.

## **Building Repairs**

### 16. Major repairs are not being made to the Farmers Market building.

During our audit at Farmers Market, we observed certain areas of the building that needed repairs. (Pictures attached) The building is only ten years old and appears to be deteriorating at a more rapid rate than should be expected. Further deterioration could lead to very costly repairs.

#### Recommendation:

Farmers Market should work with the Metro office of Real Property Services and the State of Tennessee to determine who is responsible for making the major repairs. Also, Farmers Market should develop and implement a preventative maintenance plan to prevent the continued rapid deterioration.

\* \* \* \*

Management's response to the audit recommendations is attached to this report.

We appreciate the cooperation and help provided by the Farmers Market staff.

This report is intended for the information and the management of the Metropolitan Government of Nashville and Davidson County. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Internal Audit Section

Don Dodson  
Assistant Audit Manager

Copy: Mayor Bill Purcell  
Karl F. Dean, Director of Law  
David L Manning, Director of Finance  
Eugene Nolan, Associate Director of Finance  
Metropolitan Council Audit Committee  
Richard V. Norment, Assistant to the Comptroller  
KPMG, Independent Public Accountant

Metropolitan Government of Nashville and Davidson County

Internal Audit Section

Report on Farmer's Market

**Section II**

**Management's Response**

# FARMERS MARKET

*Fresh As It Gets*

Mr. Don Dodson  
Metro Department of Finance  
Internal Audit Division  
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Nashville, Tennessee 37201

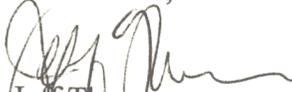
RE: Farmers Market Audit

Dear Mr. Dodson,

This letter is acknowledgement that the Nashville Farmers' market has received the Performance Audit report done by Internal Audit for this facility.

We have reviewed the report and are in agreement with its findings. We have already implemented a number of policies and procedures that address this reports finding. We will continue to work diligently to implement the remaining recommendations.

Best wishes,



Jeff Thamm  
Director

Nashville Farmers Market

*Operated by Farmers Market Board of Commissioners*

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Phone 615.880.2001 Fax 615.880.2000

Metropolitan Government of Nashville and Davidson County

Internal Audit Section

Report on Farmer's Market

**Section III**

**Market Pictures**



FARMERS  
MARKET  
RESTROOMS

AUG 5 2004













