



**A Report to the
Audit Committee**

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Office of
Internal Audit

Audit of the Nashville Farmers' Market

May 20, 2024

EXECUTIVE SUMMARY

May 20, 2024



Why We Did This Audit

The audit was initiated due to the importance of Nashville Farmers' Market within the Nashville community.

What We Recommend

- Segregate the collecting, depositing, and recording of revenue, or establish corresponding compensating controls.
- Document and distribute an emergency or disaster plan to staff, vendors, and tenants.
- Maintain a record of when payments are received.
- Record payments within two business days of deposit.
- Ensure all leases go through the established approval process.
- Regularly monitor leases to ensure rental rates are adjusted to reflect market value and rent escalation.

BACKGROUND

The Nashville Farmers' Market consists of a market house, two large, covered sheds, and a garden center. The market house has over 25 unique restaurants and retailers, and the two covered sheds has vendors who sale locally produced produce, meats, art, clothing, jewelry, and home goods. The mission of the Nashville Farmers' Market is to curate an inclusive destination marketplace that fosters a connection between our community and the farmers, foods, and artisans who contribute to our food system. Exhibit A below shows the overall revenues and expenses from running the market.

Exhibit A: Operating Revenues and Expenses by Fiscal Year

	FY21	FY22	FY23
Operating Revenues	\$1,375,390	\$1,291,936	\$1,514,498
Operating Expenses	1,873,407	2,293,860	\$2,771,073
Operating Income (Loss)	(\$498,017)	(\$1,001,924)	(\$1,256,575)

Source: Annual Comprehensive Financial Report

OBJECTIVES AND SCOPE

The objectives of this audit are to determine if:

- The Nashville Farmers' Market effectively managed leases and vendor payments.
- Nashville Farmers' Market vendors are satisfied with the facilities and services provided by market management.
- The Nashville Farmers' Market Board is actively engaged in providing governance to the Nashville Farmers' Market.

The scope of this audit included leases, revenue, and board activity between July 1, 2021, through June 30, 2023.

WHAT WE FOUND

The Nashville Farmers' Market effectively managed leases and related revenue. However, segregation of duties and record keeping related to the timing of payments could be improved.

Vendors were generally satisfied with the market and services received but had concerns over the lack of emergency or disaster plan. The Nashville Farmers' Market Board was engaged. However, the documentation and retention of meeting minutes was lacking.

GOVERNANCE

The Nashville Farmers' Market Board formation and duties were established by the Metropolitan Nashville Charter Chapter 7, §11.701 and §11.702 – *Farmers Market Board*. The board provides oversight of the operations, administration, and management of the Nashville Farmers' Market. The five-member board is appointed by the mayor and is responsible for the administrative review, financial oversight, and the monitoring of strategic objectives.

The Nashville Farmers' Market Board delegates operations of the market to an executive director. The current executive director began managing the market in February 2022.

BACKGROUND

Established in 1801, the Nashville Farmers' Market has a rich history of supporting the Nashville Community. Since 1995, the Nashville Farmers' Market has been housed at its current location adjacent to the Tennessee State Museum and Bicentennial Mall State Park. The Nashville Farmer's Market consists of an indoor market house, outdoor farm sheds, and a locally owned 27,000 square foot garden center.

The market house contains a wide array of locally owned retail shops and a diverse mix of restaurants showcasing several international options. The Grow Local Kitchen, established in 2012, is a full-size rental kitchen space within the market house that allows entrepreneurs to introduce innovative cuisine and food ideas to the Nashville Community. The Grow Local Commissary, established in 2024, within the market house also supports local businesses and entrepreneurs by providing shared kitchen space to farmers, bakers, and food artisans.

The outdoor farm sheds remain open year-round, with a peak season from March to October. The sheds provide vendors with the opportunity to sell local produce, crafts, baked goods, and other farm-direct products.

Exhibit B and Exhibit C include the top operational revenue and expense categories for the Nashville Farmers' Market over the last three fiscal years.

Exhibit B: Top Nashville Farmers' Market Operational Revenue Categories by Fiscal Year

Revenue Category	FY2021	FY2022	FY2023
Market House	\$982,024	\$848,025	\$976,671
Farm Sheds	261,466	227,178	440,292
Flea Market Rent	121,891	186,360	83,483
Total	\$1,365,381	\$1,261,563	\$1,500,446

Source: Oracle E-Business Suites R12

Exhibit C: Top Nashville Farmers' Market Expense Categories by Fiscal Year

Expense Category	FY2021	FY2022	FY2023
Security Services	\$358,433	\$384,540	574,073
Salary and Benefits	262,385	386,217	562,535
Depreciation	327,400	347,813	354,499
Janitorial Services	283,178	315,183	354,499
Nashville Electric Service	174,825	191,386	212,644
Total	\$1,406,221	\$1,625,140	\$2,046,488

Source: Oracle E-Business Suites R12

OBJECTIVES AND CONCLUSIONS

1. Does the Nashville Farmers' Market effectively manage leases and vendor payments?

Generally, yes. The Nashville Farmers' Market had processes in place to effectively manage leases and incoming revenue. Instances were found where payments were not recorded within two business days, payments from market house tenants were not correct when compared to the lease, and where leases did not go through the proper approval process. However, these instances were isolated to before the current management team began operating the Nashville Farmers' Market in February 2022.

A physical audit was conducted to confirm revenue completeness, ensuring all farm booth vendors had paid for their booths that day. All booths for the day were confirmed for payment. Additionally, a random sample of payments from market house tenants, vendor booths, and special events were reviewed. Payments received were deposited into the bank. However, timeliness of check deposits could not be determined because a record of when payments were received was not maintained on the vendor payment deposit tracker. (See Observation C.)

A review of 94 randomly selected booth rentals and market house tenants found 38 instances (40 percent) where payments were not recorded within two business days prior to July 2022. Additionally, duties related to the collection, receipt, custody, and recording of payments were not segregated. (See Observations A and C.)

Multiple instances were noted where leases were executed without a proper approval process, prior to July 2022. Some leases were not appropriately approved by the Metropolitan Nashville Law Department or the Nashville Farmers' Market Board. Additionally, some leases did not include a rent methodology. Revenue was also lost because leases were not monitored to ensure rent was escalated according to lease terms. (See Observation D.)

2. Are vendors at the Nashville Farmers' Market satisfied with the facilities and services provided by market management?

Generally, yes. A survey of Nashville Farmers' Market tenants and vendors during the audit period found respondents were generally satisfied with their experience at the market. The survey was sent to 159 tenants and vendors and had 58 responses (36 percent). The highest scored statements related to vendor's relationships with other vendors and a sense of community at the market and the belief that communication from the Nashville Farmers' market management regarding market schedules, events, and rules is clear and effective. The lowest scored statement related to the vendor's satisfaction with market accessibility for vendors and customers, specifically related to parking, loading, and unloading facilities and dissatisfaction with the provided amenities (restrooms, electricity, and water). Survey results can be seen in Exhibit D below.

Exhibit D: Nashville Farmers' Market Tenant and Vendor Satisfaction Survey Results

Statement	5 Strongly Agree	4 Agree	3 Neither Agree nor Disagree	2 Disagree	1 Strongly Disagree	Average Answer
<i>I am satisfied with my experience as a Nashville Market tenant.</i>	16	29	7	4	2	3.91
<i>I am satisfied with the accessibility of the Nashville Farmers' Market for vendors and customers, including parking and loading/unloading facilities.</i>	12	13	13	13	7	3.17

<i>I am satisfied with the provided amenities (restrooms, electricity, water) at the Nashville Farmers' Market.</i>	13	20	8	16	1	3.48
<i>I am satisfied with the support and assistance provided by the Nashville Farmers' Market management team in resolving issues or answering my questions.</i>	19	26	8	3	2	3.98
<i>I believe communication from Nashville Farmers' Market management regarding market schedules, events, and rules is clear and effective.</i>	18	30	7	1	2	4.05
<i>Nashville Farmers' Market management promotes the market and attracts customers.</i>	19	24	7	7	1	3.91
<i>The Nashville Farmers' Market is clean and well maintained.</i>	12	19	13	10	4	3.43
<i>I have a good relationship with fellow vendors at the Nashville Farmers' Market and the market has a sense of community.</i>	32	21	3	2	0	4.43
<i>The Nashville Farmers' Market policies and rules are clear, fair, and support my business needs.</i>	15	21	8	9	5	3.55

Source: Office of Internal Audit Survey

The survey provided the opportunity for feedback about the Nashville Farmers' Market. All concerns were reviewed with management, and most concerns had been reasonably addressed by management. However, vendors expressed concerns that no formal emergency or disaster plan had been communicated to tenants and vendors of the market. While current management has taken several steps to address safety within the market, a formal emergency or disaster plan has not been drafted and distributed to staff, tenants, and vendors. (See Observation B.)

3. *Is the Nashville Farmers' Market Board actively engaged in providing governance to the Nashville Farmers' Market?*

Yes. The Nashville Farmers' Market Board met 23 out of the 24 months in the audit period. Based on observations of the board and a review of the minutes, board members were involved and actively providing governance over the market. The executive director and staff were providing regular updates to keep the board informed of the operations at the market. Meeting minutes were documented and available for review from January 2022 through June 2023. However, board meeting minutes could not be provided for six meetings between July 2021 and December 2021. (See Observation E.)

AUDIT OBSERVATIONS

Internal control helps entities achieve important objectives and sustain and improve performance. The Committee of Sponsoring Organizations of the Treadway Commission, *Internal Control – Integrated Framework (COSO)*, enables organizations to effectively and efficiently develop systems of internal control that adapt to changing business and operating environment, mitigate risks to acceptable levels, and support sound decision making and governance of the organization. The audit observations listed are offered to assist management in fulfilling their internal control responsibilities.

Observation A – Segregation of Duties

The Nashville Farmers’ Market’s segregation of duties related to revenue collections was lacking. The Finance Manager collected, monitored, deposited, and recorded payments received by Nashville Farmers’ Market. The Nashville Farmers’ Market has seven full-time employees and segregation of duties can be difficult with a small staff. To ensure payment accuracy and completeness despite the lack of segregation of duties, a review of eight market house leases was conducted to confirm all payments for the lease period were accurate and deposited into the bank. However, a lease payment for \$6,577 was missing for one of the leases. This discrepancy occurred before the current Finance Manager took over, and a reason for the missing payment could not be provided. The sample was expanded by two additional leases and all lease payments were found to be complete.

Lack of segregation of duties or compensating controls may increase the opportunity and risk of revenue errors or misappropriation.

Criteria:

- *COSO, Control Activities—Principle 10—The organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.*

Assessed Risk Rating:

High

Recommendation for management of the Nashville Farmers’ Market to:

Segregate the collection, depositing, and recording of payments or create a compensating control to mitigate the risk of revenue errors or misappropriation.

Observation B – Emergency and Disaster Planning

A formal emergency plan had not been drafted and distributed to staff and tenants. Vendors expressed concern over a lack of an emergency or disaster plan. Management had taken steps to improve the safety of the vendors, tenants, and patrons. Steps included implementing instant communication methods to inform tenants and vendors of potential emergencies and providing active shooter training for employees.

The lack of an emergency plan poses risks to the safety of patrons, vendors, and staff, as well as the continuity of operations in the event of unforeseen emergencies or disasters.

Criteria:

- *COSO, Control Activities—Principle 9—The organization identifies and assesses changes that could significantly impact the system of internal control.*
- *COSO, Control Activities—Principle 10—The organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.*

Assessed Risk Rating:

High

Recommendation for management of the Nashville Farmers' Market to:

Document a formal emergency or disaster plan. Distribute the plan to staff and tenants of the Nashville Farmers' Market.

Observation C – Revenue Deposits and Recording

Controls around the timing and recording of revenue deposits were lacking. A record of when non-credit card payments were received by the Nashville Farmers' Market was not maintained on the vendor payment deposit tracker. Therefore, the timeliness of deposits could not be determined for a random sample of 94 reviewed payments. Additionally, 38 out of 97 (39 percent) payments were not recorded into the Oracle R-12 financial system within two business days. All 38 instances were during the tenure of the previous management of the Nashville Farmers' Market.

Lack of an accurate payment log may increase the risk of revenue errors or misappropriation. Additionally, delayed recording of revenues increases the risk of financial reports being misleading or irrelevant.

Criteria:

- COSO, Control Activities—Principle 10—The organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.
- Metropolitan Nashville Government Finance Department Treasury #9 – Cash Deposits

Assessed Risk Rating:

Medium

Recommendations for management of Nashville Farmers' Market to:

1. Maintain a record of when payments are received.
2. Ensure cash receipts are recorded within two business days of being deposited into the bank.

Observation D – Lease Management

Approval and monitoring of leases lacked controls. A total of 13 randomly selected leases from the audit period were reviewed. The review found 5 of 13 (38 percent) leases were not approved by the Metropolitan Nashville Law Department, the Nashville Farmers' Market Board, or both. The leases also were not filed with the Metropolitan Nashville Clerk. All leases established under the current management were fully executed through the Metropolitan Nashville signatory process and filed with the Metropolitan Nashville Clerk via DocuSign.

Due to a lack of monitoring, revenue amounting to \$9,799 was lost because the rent escalation clauses were not enforced timely for four leases. The mistake was eventually discovered for one of the leases, and \$7,459 in lost revenue was recovered from the tenant.

The Z. Dorris Group performed a rent study in October 2021. The Nashville Farmers' Market used the report to create a methodology to increase rent to market rates over a three-year period. Prior to the report, no methodology for determining rent for market house tenants existed. No methodology was in place for 6 out of 13 leases reviewed. Management discretion determined the rent amounts. However, all reviewed leases executed under the current management included a rent methodology based on square footage.

Failure to properly approve and monitor leases could result in loss of revenue and could open the Nashville Farmers' Market to unforeseen financial and legal liabilities.

Criteria:

- COSO, Control Activities—Principle 10—The organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.

Assessed Risk Rating:

Medium

Recommendations for management of Nashville Farmers' Market to:

1. Ensure all leases undergo thorough review and approval by all required parties including the Metropolitan Nashville Law Department and Nashville Farmers' Market Board.
2. Regularly monitor leases to ensure that rental rates are adjusted to reflect market value, as specified in the leases.

Observation E – Retention of Meeting Minutes

All Nashville Farmers' Market Board meeting minutes were not maintained. Management did not retain minutes for 6 of the 23 (26 percent) meetings held during the audit period. The meetings occurred between July 2021 and December 2021, predating the current management's oversight of market operations.

Without meeting minutes, public transparency is diminished. Additionally, management cannot provide evidence of board actions and approvals.

Criteria:

- COSO, Control Activities—Principle 10—The organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.

Assessed Risk Rating:

Low

Recommendation for management of Nashville Farmers' Market to:

Document and retain meeting minutes for all Nashville Farmers' Market Board meetings.

GOVERNMENT AUDITING STANDARDS COMPLIANCE

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our observations and conclusions based on our audit objectives.

METHODOLOGY

To accomplish our audit objectives, we performed the following steps:

- Reviewed applicable laws and regulations.
- Surveyed and interviewed tenants of the Nashville Farmers' Market.
- Interviewed key personnel within the Nashville Farmers' Market.
- Evaluated internal controls currently in place.
- Considered risk of fraud, waste, and abuse.

AUDIT TEAM

Jim Carson, CIA, CFE, In-Charge Auditor

Seth Hatfield, CPA, CIA, CFE, CCFO, Quality Assurance

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APPENDIX A – MANAGEMENT RESPONSE AND ACTION PLAN

We believe that operational management is in a unique position to best understand their operations and may be able to identify more innovative and effective approaches and we encourage them to do so when providing their response to our recommendations.

	Recommendations	Concurrence and Action Plan	Proposed Completion Date
<i>Recommendations for management of the Nashville Farmers' Market to:</i>			
H	A.1 Segregate the collection, depositing, and recording of payments or create a compensating control to mitigate the risk of revenue errors or misappropriation.	Accept. NFM management accepts the recommendation and is currently having all revenue payments reviewed by the Executive Director to ensure accuracy.	Completed
H	B.1 Document a formal emergency or disaster plan. Distribute the plan to tenants of the Nashville Farmers' Market.	Accept. NFM management accepts the recommendation and is currently developing a formal emergency plan for distribution to all tenants.	June 2025
M	C.1 Maintain a record of when payments are received.	Accept. NFM management has already added a record of received date to the vendor payment deposit tracker.	Completed
M	C.2 Ensure cash receipts are recorded within two business days of being deposited into the bank.	Accept. NFM management has been recording cash receipts within two business days since August of 2022.	Completed
M	D.1 Ensure that all leases undergo thorough review and approval by required parties including the Metropolitan Nashville Law Department and Nashville Farmers' Market Board.	Accept. NFM management accepts the recommendation and implemented DocuSign in early 2023 to route all leases through the required Metro signatory process.	Completed
M	D.2 Regularly monitor leases to ensure that rental rates are adjusted to reflect market value, as specified in the leases.	Accept. NFM management accepts the recommendation and implemented monthly monitoring of all leases in July of 2022.	Completed
L	E.1 Document and retain meeting minutes for all Nashville Farmers' Market Board meetings.	Accept. NFM management accepts the recommendation and ensured all meeting minutes are posted online in July of 2022.	Completed

APPENDIX B – ASSESSED RISK RANKING

Observations identified during the course of the audit are assigned a risk rating, as outlined in the table below. The risk rating is based on the financial, operational, compliance or reputational impact the issue identified has on the Metropolitan Nashville Government. Items deemed “Low Risk” will be considered “Emerging Issues” in the final report and do not require a management response and corrective action plan.

Rating	Financial	Internal Controls	Compliance	Public
HIGH	Large financial impact >\$25,000 Remiss in responsibilities of being a custodian of the public trust	Missing, or inadequate key internal controls	Noncompliance with applicable Federal, state, and local laws, or Metro Nashville Government policies	High probability for negative public trust perception
MEDIUM	Moderate financial impact \$25,000 to \$10,000	Partial controls Not adequate to identify noncompliance or misappropriation timely	Inconsistent compliance with Federal, state, and local laws, or Metro Nashville Government policies	Potential for negative public trust perception
LOW/ Emerging Issues	Low financial impact <\$10,000	Internal controls in place but not consistently efficient or effective Implementing / enhancing controls could prevent future problems	Generally complies with Federal, state, and local laws, or Metro Nashville Government policies, but some minor discrepancies exist	Low probability for negative public trust perception
Efficiency Opportunity	An efficiency opportunity is where controls are functioning as intended; however, a modification would make the process more efficient			