



Georgia Department of Audits and Accounts

Performance Audit Division

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Why we did this review

This follow-up review was conducted to determine the extent to which the Georgia Department of Agriculture (GDA) addressed the recommendations presented in our January 2018 performance audit (Report #16-11).

The 2018 audit examined the extent to which the state farmers' markets 1) were meeting the needs of Georgia's agricultural industry, 2) were operating in a cost-efficient manner, and 3) had properly designed controls over the various aspects of market operations.

About the markets

GDA operates nine farmers' markets around the state to promote the handling, packing, transporting, storage, distribution, inspection, and sale of agricultural products. The markets are located in Atlanta, Augusta, Cairo, Cordele, Macon, Moultrie, Savannah, Thomasville, and Valdosta.

According to GDA, in fiscal year 2019, the markets generated approximately \$7 million in revenue from leases/rents, gate tickets, and truck scale fees and expended approximately \$3 million. The Atlanta Market, the largest and most comprehensive of the markets, is responsible for 84% of the total revenue generated and 61% of total expenditures.

Follow-Up Review

State Farmers' Markets

Some actions taken to address audit recommendations

What we found

The Georgia Department of Agriculture (GDA) took action to address some operational issues identified in our 2018 performance audit, such as lease and cash management practices and market promotional efforts. Action is needed to address ongoing concerns related to the overall viability of the markets, maintenance, lease rate-setting practices, and policies dealing with conflicts of interest.

At the time of the audit, the markets were underutilized due to declining demand from farmers and customers. In addition, five of the nine markets operating at the time of our review cost more to operate than they generated in revenue. We recommended that GDA and the General Assembly evaluate the continued viability of each state-run farmers' market and, for markets it continued to operate, make improvements to ensure the markets were operating in a more business-like manner.

Market Viability

During the 2019 legislative session, the General Assembly introduced HB 455 (creating an agricultural marketing authority) and Senate Resolution 442 creating the Senate Study Committee on Creating a Georgia Agricultural Marketing Authority. The authority would provide facilities and activities for the agricultural community to market and promote its products to agribusiness and the public. As part of the authority, it would be necessary for GDA to conduct a business evaluation and address identified performance issues, according to GDA management. In addition, the markets would be allowed to retain versus remit revenues and GDA could plan for future projects (e.g., capital improvements).

While GDA hoped that the authority would help them move forward with plans to reimagine the markets, the legislation did not pass and the study committee's report did not include specific recommendations.

Market Operations

Due to the work of the study committee, GDA's plans to contract with the University of Georgia (UGA) to evaluate the viability of the markets were put on hold. As a result, all nine state farmers' markets continue to operate. However, actions taken to address operational issues across the markets have been mixed, as discussed below.

- **Maintenance** – GDA continues to conduct most maintenance and repair projects on an as needed basis without maintenance plans to guide and prioritize work. While GDA was allocated a facilities management position in fiscal year 2020 that was expected to monitor and oversee market maintenance, the position was not filled due to budget cuts.
- **APDA Agreement** – GDA has neither evaluated nor revised its agreement with the Atlanta Produce Dealers Association (APDA) to ensure revenues collected and retained by APDA approximate the cost to operate facilities at the Atlanta State Farmers' Market or that the state was receiving a substantial benefit (as required by the state constitution's gratuities clause).
- **Lease Management** – GDA took steps to improve its management of leases such as creating a standard lease agreement used across all markets and a process to inventory and update existing leases. However, GDA has not established a standard method for setting lease rates (including the consideration of market rents) to ensure compliance with the state's gratuities clause.
- **Cash Management** – GDA improved cash management practices by installing working safes at all nine markets to secure cash daily and routinely using prenumbered cash receipts. However, segregation of duties remains a problem at the smaller markets and cash deposits do not always occur at frequencies consistent with State Accounting Office (SAO) policies. Similarly, past due balances owed by tenants at the markets are not actively managed as recommended by SAO, though GDA's legal department is available to assist with collections when requested by individual market managers.
- **Market Metrics** – GDA tracks occupancy rates, revenues, and maintenance costs to guide discussions about market performance.
- **Market Promotion** – GDA promotes the markets through direct contact with prospective tenants as it attempts to shift the focus of the markets from direct-to-consumer sales to processing and distribution centers. However, it continues to underutilize existing marketing resources (website, Market Bulletin publication, or Georgia Grown[®] promotional materials) to promote the markets.
- **Conflicts of Interest** – While GDA revised portions of its conflict of interest policy related to disclosures, the changes did not clarify GDA's policy on conducting business with GDA vendors or determine whether state code provisions prohibiting employees from engaging in business as a GDA vendor are covered in existing policies.

GDA's Response: GDA agreed with the current status as presented in the following table and noted that it will continue to address the concerns of the audit as the circumstances allow.

The following table summarizes the findings and recommendations in our 2018 report and actions taken to address them. A copy of the 2018 performance audit report (#16-11) may be accessed at <http://www.audits.ga.gov/rsaAudits>.

State Farmers' Markets Follow-Up Review, June 2020	
Original Findings/Recommendations	Current Status
<p>While GDA has taken steps to ensure the continued viability of the Atlanta State Farmers' Market, action is needed to determine the viability and future role of the remaining eight markets.</p> <p>We recommended GDA evaluate the future direction of each of the markets outside of Atlanta, which may result in the decision to close some markets, increase investment in others, or commission a formal feasibility study of the markets; consider alternate models to support agriculture in these communities; and collect and evaluate information for each market to assess their continued need and monitor performance.</p>	<p>Partially Addressed – During the 2019 legislative session, the General Assembly considered the creation of the Georgia Agricultural Marketing Authority, which could address some of the concerns identified, but the idea has not been advanced through legislative action. GDA has not evaluated the viability and future role of the eight markets outside of Atlanta. As a result, all markets remain operational.</p> <p>According to GDA, it has neither developed a strategic plan for the markets nor contracted with the University of Georgia (UGA) to evaluate the markets. GDA management said it put plans to evaluate the markets on hold due to work of the 2019 Senate Study Committee on Creating a Georgia Agricultural Marketing Authority and due to budget constraints. According to GDA management, becoming a part of an authority would make it necessary to conduct a business evaluation and address identified performance issues. In addition, as an authority, the markets would be allowed to retain versus remit revenues and plan for future projects (e.g., capital improvements) by forecasting using the previous fiscal year's revenue. The Committee's report did not include specific recommendations and no additional actions have been taken.</p> <p>While it has not conducted a formal evaluation, GDA believes the markets continue to serve the needs of the communities they are in. GDA indicates that it uses monthly revenue and expense reports to gauge the relative health of the markets and considers market fees, personnel costs, and operating expenses (e.g. maintenance). The seasonal nature of some markets also continues to be a factor in a market's financial sustainability.</p>
<p>GDA's maintenance approach places more emphasis on major and emergency repairs, and less emphasis on preventive maintenance. Significant resources may be needed to address preventive maintenance and repair backlogs to avoid further deterioration of market assets.</p> <p>We recommended GDA, in collaboration with the General Assembly, consider assessing the cost of repairs, replacement, and preventive maintenance at the markets. We also recommended GDA create an annual maintenance and repair plan and budget.</p>	<p>Not Addressed – GDA has not taken steps to ensure market maintenance is managed in a manner to preserve farmers markets assets and minimize costs.</p> <p>According to market managers, GDA's maintenance approach has remained unchanged since the 2018 audit with no preventive maintenance or annual maintenance and repair plans. GDA staff attributed this to a lack of funding since the General Assembly has not appropriated funds for the maintenance of the markets. GDA created a maintenance position in 2019, but it was not filled due to budget cuts.</p> <p>Based on the Governor's recommended budget, GDA may receive \$1 million in bond funds for market maintenance in fiscal year 2021. GDA intends to use any existing or future bond funds to address various maintenance needs across all markets, such as re-roofing projects or maintenance emergencies.</p>

State Farmers' Markets Follow-Up Review, June 2020	
Original Findings/Recommendations	Current Status
<p>GDA's agreement with the Atlanta Produce Dealers Association (APDA) and lease rate setting practices may not be in compliance with the state's gratuities clause.</p> <p>We recommended GDA re-evaluate the APDA contract and determine desired outcomes. If continued, GDA should revise the agreement, in consultation with the Office of the Attorney General, to include current deliverables and establish reporting requirements; document market rent of spaces used by APDA and operations costs; and monitor the agreement to ensure APDA compliance and understand the substantial benefits flowing to the state as a result.</p> <p>In addition, we recommended GDA determine market rents for spaces at each of the markets and document the rationale for any discounts applied.</p>	<p>Not Addressed – GDA has neither revised its ongoing agreement with APDA for services provided at the Atlanta Market nor determined the market rent for spaces at the markets, which continues to put GDA at risk of noncompliance with the state's gratuities clause.¹</p> <p>According to GDA, formal discussions with APDA regarding the agreement have not occurred since the audit; thus, the agreement remains unchanged. GDA management indicated that APDA has experienced some changes, which necessitate the need to hold discussions in the coming months regarding any changes to the terms, should the APDA still desire to operate the facilities. GDA also noted that construction of a new building at the Atlanta Market has impacted the availability of parking spaces assigned to the Exhibit Hall managed by APDA, which has reduced its viability as an events center as it once was. As discussed in the next section, GDA has not revised its lease rate setting practices.</p> <p>In addition, though GDA had not determined what market rents were for spaces on state farmers' markets (including facilities operated by APDA), management acknowledged its intent to set the rates lower to support the agriculture industry. However, GDA had not considered the possibility that its low lease rates could result in the granting of a gratuity to tenants.</p>
<p>GDA should review its lease rate setting practices to ensure consistency and that the rates in effect are adequate.</p> <p>We recommended GDA determine and periodically update market rents for spaces at each of the state farmers' markets using pricing for similar spaces or appraisals. We also recommended that GDA document deviations from fee schedules and establish policies covering all aspects of lease-rate setting.</p>	<p>Not Addressed – GDA has not determined market rents for spaces at each of the markets. As previously noted, charging below market rents to tenants could lead to noncompliance with the state's gratuities clause. In addition, GDA has not developed formal policies or procedures around lease rate setting, including procedures for documenting the rationale for deviations in established lease rates.</p> <p>Our review of a selection of current leases identified instances in which the rationale for any deviations from lease terms remains undocumented. Our discussions with GDA's legal department indicated that they intend to start reviewing any deviations to the fee schedule prior to incorporating them into lease agreements and/or will incorporate changes to the lease terms as addendums to current agreements. However, GDA expressed its concern for any action that would potentially increase lease rates, such as setting lease rates in an amount equivalent to costs. According to GDA management, additional revenue generated from higher lease rates cannot be invested back into the markets. All revenue generated by the markets has to be remitted to the State Treasury. However, to remain in compliance with the state's gratuities clause, GDA must either demonstrate the substantial benefit received by the state or document the rationale for maintaining lease rates below fair market value.</p>

¹ Article III, Section VI, Paragraph VI of the 1983 Georgia Constitution states that "the General Assembly shall not have the power to grant any donation or gratuity." An Attorney General Opinion determined the gratuities clause extends to departments of the state specifically prohibiting them from granting any donation or gratuity in favor of any person, corporation, or association (Attorney General Opinion 1957).

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Original Findings/Recommendations	Current Status
	<p>We identified lease rate setting practices among a few markets that could lead to inconsistencies in the rates assessed to tenants for similar types of spaces. For example, we identified instances where some tenants had utilities metered separately, while those that were not metered paid a flat rate. However, it was unclear whether the flat rate was based on estimates of actual usage.</p>
<p>GDA's lease management practices expose GDA to unnecessary risks.</p> <p>We recommended GDA consider centrally managing leases and assigning primary responsibility for lease administration, as well as develop policies and procedures related to lease administration, create a standard lease agreement, and establish controls to ensure lease terms are enforced.</p>	<p>Partially Addressed – While GDA has taken steps to standardize and centralize aspects of lease administration, additional steps are necessary to ensure its liability is limited and the state's assets are protected.</p> <p>Since the audit, GDA's legal division has been tasked with centrally tracking and reviewing leases and has implemented a standard lease agreement across markets, according to GDA management.</p> <ul style="list-style-type: none"> • Legal division staff created a spreadsheet to track leases (both new and renewed) and are in the process of inventorying the remaining leases. As of March 2020, the legal division had reviewed 80 of approximately 116 leases (69%) across all nine of the markets (including some leases that may not yet be fully executed). In addition to tracking new and renewed leases, the legal division is in the process of implementing standard shed and conference room rental agreements for the markets, which did not exist during the original audit. • The legal division has also created a standard lease document which is to be used across all markets. The standard lease agreement includes typical language and terms, allowing changes only to market name and location, tenant name, name of premises with description, term dates, and rent amount. However, it excludes important elements, such as security deposit requirements, that would protect the markets from losses associated with damages from tenants' failure to fulfill lease terms (e.g., leaving prior to the end of lease, back rent). <p>Market managers continue to have a role in lease administration, but GDA has not established formal written procedures to ensure lease management practices are consistent. Some market managers retain fully executed leases at the markets, while others do not, and not all tenants are provided with a copy of signed lease agreements unless requested in some cases. In addition, though market managers indicate that they are still responsible for enforcing lease terms, GDA has not established controls, such as formal action to collect past due payments, to ensure this occurs consistently. As noted later in this report, past due amounts continue to be an area of concern.</p>

State Farmers' Markets Follow-Up Review, June 2020	
Original Findings/Recommendations	Current Status
<p>With the exception of the Atlanta Market, certain cash management practices at six state farmers' markets are not in compliance with state accounting policies.</p> <p>We recommended GDA evaluate and establish cash controls in compliance with SAO policies; develop standard policies and train staff on proper cash management; and increase monitoring of cash management at the markets. We also recommended GDA explore ways to modernize its payment collection processes, including the potential to accept electronic payments and/or credit cards.</p>	<p>Partially Addressed – Though GDA has taken steps to address cash management deficiencies identified, improvements are still needed. Additionally, formal written procedures for collections, safeguarding, depositing, and managing cash are not yet in place.</p> <p>Since the audit, all markets now have safes that are operational with cash secured daily, and prenumbered cash receipts are now routinely provided for cash accepted. Though cash management practices at Atlanta Market were not an issue at the time of the audit, GDA indicated that cameras were upgraded and are actively used to monitor cash receipt activity at the gate where fees are paid.</p> <p>Other deficiencies identified have not been addressed. The eight smaller markets continue to have the same person establishing accounts receivable records and preparing deposits for the bank (in the busy season) and some have one person handling all aspects of cash collection, processing, and deposits in the off-season with no independent review. In addition, a review of agency documents indicated deposits do not consistently occur if cash on hands exceeds the \$500 threshold required by state financial policies. For instance, cash deposits at the Cordele Market averaged \$2,777 in July 2019 when deposits were occurring every 2-3 days (they should have been occurring daily). Similar circumstances were noted at Macon which had an average deposit of \$2,011 occurring weekly in May 2019 (deposits should have occurred at least every couple days). Accepting electronic payments would reduce the amount of cash on hand, but none of the markets currently have this capability (as was the case in 2018).</p> <p>According to GDA, there has been turnover in the Finance Division. While they indicate a former staff member had taken steps to improve monitoring of cash management practices across all the markets, documentation of this work cannot be located. GDA intends to establish standard policies on cash management and train staff on new policies once in place.</p>
<p>GDA should improve its management of payments and past due amounts to comply with state accounting policies.</p> <p>We recommended GDA:</p> <ol style="list-style-type: none"> 1) establish a process for managing and recording debts owed by tenants including who owes the debt, how much is owed, when the debt is due, and the nature of the debt; 2) consider centralizing the billing, payment collection, and tracking of amounts owed; 3) establish collections procedures and determine if the use of collections agencies is appropriate; and 	<p>Not Addressed – GDA has not established a standard process or specific policies for management of payments and past due amounts, and weaknesses identified in the 2018 audit persist. In addition, a systematic process for requesting assistance from GDA's legal department and systems for tracking collections action, status, and outcomes have not been established.</p> <p>Billing, payment collection, and tracking of amounts owed continues to be a decentralized process handled by individual market managers, with methods for tracking payments and monitoring past due amounts varying across markets. Individual customer accounts and subsidiary ledgers are not used; as a result, reports related to past due amounts and aging schedules cannot be generated to assist with monitoring. GDA's Finance Director indicated Peoplesoft/TeamWorks is not used to record financial transactions due to the relatively small revenue streams and remoteness of some of the smaller markets.</p>

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<p>4) consider having lease payments sent to its finance office to centralize the payment process and uniformly administer it.</p>	<p>We did not find evidence of systematic monitoring or follow-up on past due amounts owed. Though all state markets use a template to report lease payments and past due amounts to the central GDA office, the template does not include a plan for repayment (e.g. actions taken or when the debt is due). GDA does not use collections agencies to assist with delinquencies but instead makes assistance with collections available to the market managers through its legal division. However, there is no standard policy for when it is appropriate to involve the legal division (e.g. a dollar threshold), and GDA lacks a systematic way of tracking collections actions, status, and outcomes.</p> <p>As of February 2020, five state markets had delinquencies totaling \$11,502 with Cordele market having past due amounts dating back to 2014. Macon Market also had a tenant who severed their lease in 2017 with \$30,326 due in back rent. Though demand letters were sent, GDA did not have evidence of further steps taken to recover the amount owed. GDA indicated a need for simple accounting system such as QuickBooks to be used across markets and an additional staff position to oversee lease payments and past due collections, but noted additional funding is needed for these purposes.</p>
<p>GDA should develop performance indicators to better monitor markets' operations.</p> <p>We recommended GDA establish objectives and additional performance indicators that are tied to the various business functions and the goals of the markets. The performance measures should include outcome, as well as output and efficiency measures. They should also be tracked over time so that trends can be evaluated and benchmarks established.</p> <p>We also recommended GDA consider requiring some or all tenants on State Farmers' Markets to provide regular commodity reports and any other data elements necessary to support the performance indicators tracked by the department.</p> <p>GDA should regularly monitor and evaluate the markets' performance and use this information to guide decisions pertaining to the markets, including funding decisions.</p>	<p>Partially Addressed – GDA tracks four data points that it uses to guide discussions about performance for individual markets and across the State Farmers' Market enterprise. However, these data points are not tied to a set of specific, measurable objectives.</p> <p>In their response to the findings, GDA indicated an intention to 1) contract with UGA for a performance evaluation of the markets to produce relevant performance measures, and 2) capture data on tenants as part of the lease agreement (e.g. number of employees, commodities sold, and other economic indicators) to generate information on economic impact. According to GDA, its plans to contract with UGA were put on hold due to budget constraints and the prospect of the markets becoming an Agricultural Authority. In addition, our review of standard lease documents found that they do not capture the additional tenant information described above.</p> <p>In the absence of a formal study to develop performance metrics for the markets, GDA tracks occupancy rates, revenues, and maintenance costs to guide discussions about market performance. According to GDA management, regular discussion around these data points has only recently begun to occur.</p>
<p>GDA should better utilize existing resources to promote farmers' markets.</p> <p>We recommended GDA update information on its website to include more recent and useful information related to tenants and activities on the farmers' markets. Additionally, GDA should consider ways to promote State Farmers' Markets in the</p>	<p>Partially Addressed – GDA has not maximized its use of existing marketing resources to promote state farmers' markets to prospective tenants or to consumers. Instead, GDA has pursued a new marketing approach it considers more relevant to the current focus of the markets, which presently act as retail buying and distribution centers with limited direct-to-consumer sales.</p>

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<p>Market Bulletin and in its ongoing efforts to promote locally grown produce and other items through Georgia Grown®.</p>	<p>Since the 2018 audit, no updates or improvements to website content related to tenants and activities on the farmers' markets has occurred. Similarly, no significant improvements in advertising or promotion of the markets through Georgia Grown® or the Market Bulletin were noted.</p> <p>According to GDA management, it has made a significant shift in the focus and operations for the markets, though this has not been formally documented. Management indicated the markets presently act as processing and distribution centers with limited direct-to-consumer sales; thus, less emphasis is placed on marketing to consumers. Instead, the Marketing Division efforts focus on promoting commercial and industrial activities. For instance, the Marketing Division director reaches out to prospective tenants (both in-state and out-of-state) for the markets to ensure business activity at the markets is maximized.</p>
<p>GDA should take additional steps to identify and mitigate potential conflicts of interest.</p> <p>We recommended GDA develop additional procedures to strengthen its disclosure provisions and identify potential conflicts that arise over the course of employment; clarify its policy on conducting business with GDA vendors; and determine if the provisions of O.C.G.A., § 2-10-54 are covered under its existing policies or if a new policy is needed to address the provisions.</p>	<p>Not Addressed – Though changes to GDA's conflict of interest disclosure provisions in their Code of Conduct policy have occurred, the changes did not address areas highlighted as problematic in the 2018 audit. No steps have been taken to clarify GDA's policy on conducting business with GDA vendors. Likewise, no steps have been taken to determine if the provisions prohibiting employees from engaging in business as a GDA vendor (O.C.G.A. § 2-10-54) are addressed.</p> <p>According to both GDA's Finance Director and the Director of Human Resources, GDA is currently revising all departmental policies, including its Code of Conduct policy.</p>
<p>10 Findings</p>	<p>0 Fully Addressed</p> <p>5 Partially Addressed</p> <p>5 Not Addressed</p>

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