



Georgia Department of Audits and Accounts Performance Audit Division

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Why we did this review

The state has been operating farmers' markets since 1935. The markets have not undergone a performance audit since 1988. This review sought to determine if farmers' markets 1) are meeting the needs of Georgia's agricultural industry, 2) are operating in a cost-efficient manner, and 3) have properly designed controls over the various aspects of market operations.

About the markets

The Georgia Department of Agriculture (GDA) operates nine farmers' markets around the state to promote the handling, packing, transporting, storage, distribution, inspection, and sale of agricultural products. Located in Atlanta, Augusta, Cairo, Cordele, Macon, Moultrie, Savannah, Thomasville, and Valdosta, the markets encompass a total of 289 acres and approximately 119 buildings (with about 2 million square feet of space). GDA employs approximately 40 full- and part-time staff at the markets.

In fiscal year 2016, the markets generated approximately \$6.8 million in revenue from leases/rents, gate tickets, and truck scale fees and expended approximately \$4 million. The Atlanta Market, the largest and most comprehensive of the markets, is responsible for 84% of the total revenue generated and 64% of the total expenditures.

State Farmers' Markets

Action needed to determine the future of the markets and improve operations

What we found

With the exception of the Atlanta Market, state-run farmers' markets are underutilized due to declining demand from farmers and customers. This is evidenced by low occupancy and visitation rates and space being rented to non-agricultural businesses at several markets. Five of the nine markets cost more to operate than they generate in revenue. In addition, many facilities at the markets are outdated and need repair. As a result, GDA and the General Assembly need to evaluate the continued viability of each state-run farmers' market by weighing need against the cost of repairs and improvements.

The agricultural industry has changed significantly since the farmers' markets were established in 1935. Industry representatives in Georgia indicated that the state-run farmers' markets are not practical for larger farming operations. In addition, the number of smaller family farms that might still have a need for a farmers' market to do business has been declining. Depending on the size of the farm, alternatives to the state-run farmers' markets include use of produce brokers as intermediaries between the farmer and the point of sale, "u-pick" operations, and community markets located in town centers.

Although the General Assembly approved the issuance of bond funds totaling \$15 million between fiscal years 2014 and 2016 (\$14 million for improvements at the Atlanta Market and \$1 million for major repairs and renovations across all markets), many market facilities are in need of maintenance, repairs, and improvements. Currently, preventive maintenance to minimize repair costs and prolong the life of market assets is not emphasized. Instead, much of the focus is on major and emergency repairs.

In addition, operational improvements are needed to ensure that the markets, as an enterprise, are operating in a more business-like manner. These areas include:

- establishing an inventory of market maintenance needs and estimated costs to assist decision-makers in weighing demand of the markets against the need for additional investment in some markets and developing a maintenance work plan and budget for those that will continue to operate;
- improving lease management practices by developing a consistent method for setting lease rates, revising standard lease agreements to ensure that assets are protected and liability is limited, and properly executing and enforcing leases;
- centralizing and improving accounts receivable tracking and collection of past due amounts;
- revisiting GDA's agreement with the Atlanta Produce Dealers Association (APDA) to ensure that the state is receiving an equivalent benefit from APDA in exchange for the revenues and fees APDA generates from the welcome center, gift shop, and exhibit hall rentals at the Atlanta Market;
- improving GDA's ability to monitor and manage market operations by collecting management information needed to assess markets' efficiency and effectiveness;
- utilizing existing resources to promote the markets; and
- taking additional steps to annually identify and mitigate potential conflicts of interest among GDA employees.

It should be noted that a number of these operational problems were previously identified in a 1988 performance audit we conducted of market facilities' management under a previous administration.

What we recommend

GDA should evaluate the future direction of each of the farmers' markets outside Atlanta. This may result in the decision to close some markets, increase investment in others, or commission a more formal feasibility study to determine how specific markets can be improved or modernized to meet the needs of the agricultural community and the cost to do so. Consideration should also be given to alternate models for continuing to support agriculture in areas that, for example, have a need for seasonal agricultural packing facilities rather than a full-scale market.

If the state chooses to continue to support some or all of the farmers' markets, GDA should take steps to address the operational issues identified in the remainder of the report to ensure that an enterprise of this scale (with nine locations across the state including the Atlanta Market) is managed effectively. See [Appendix A](#) for a detailed listing of recommendations.

GDA's Response: "In many ways, the term "farmers market" understates the true nature and value of the state farmers market facilities. The state farmers markets operate as an interdependent industrial network with the Atlanta market operating as the central hub." GDA noted that "at the heart of many of the findings ... is the lack of funding and resources available to GDA for the operation of the markets." GDA stated that it "does not receive a direct appropriation of state funds for farmers markets," but is "funded through an appropriation to GDA's Marketing and Promotion program. Over the past ten years the markets have provided roughly twenty-eight million in net operating revenues to the state treasury." And, "as revenues for the markets have increased, the operation budget has decreased." According to GDA, an "unpredictable annual budget" limits its ability "to create a multi-year budget or capital budget for the markets." In addition, GDA commented that its inability to retain revenues limits its options to finance expansion and improvement efforts at the markets.

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Purpose of the Audit

This report examines the State Farmers' Markets within the Georgia Department of Agriculture (GDA). Specifically, the audit set out to determine if 1) farmers' markets are meeting the needs of Georgia's agricultural industry and how the purpose and intent of farmers' markets has evolved, 2) the farmers' markets are operating in a cost-efficient manner, and 3) controls over farmers' markets payment collections, tenants, and employee conflicts of interest are properly designed.

A description of the objectives, scope, and methodology used in this review is included in [Appendix B](#). A draft of the report was provided to the Department of Agriculture for its review, and pertinent responses were incorporated into the report.

Background

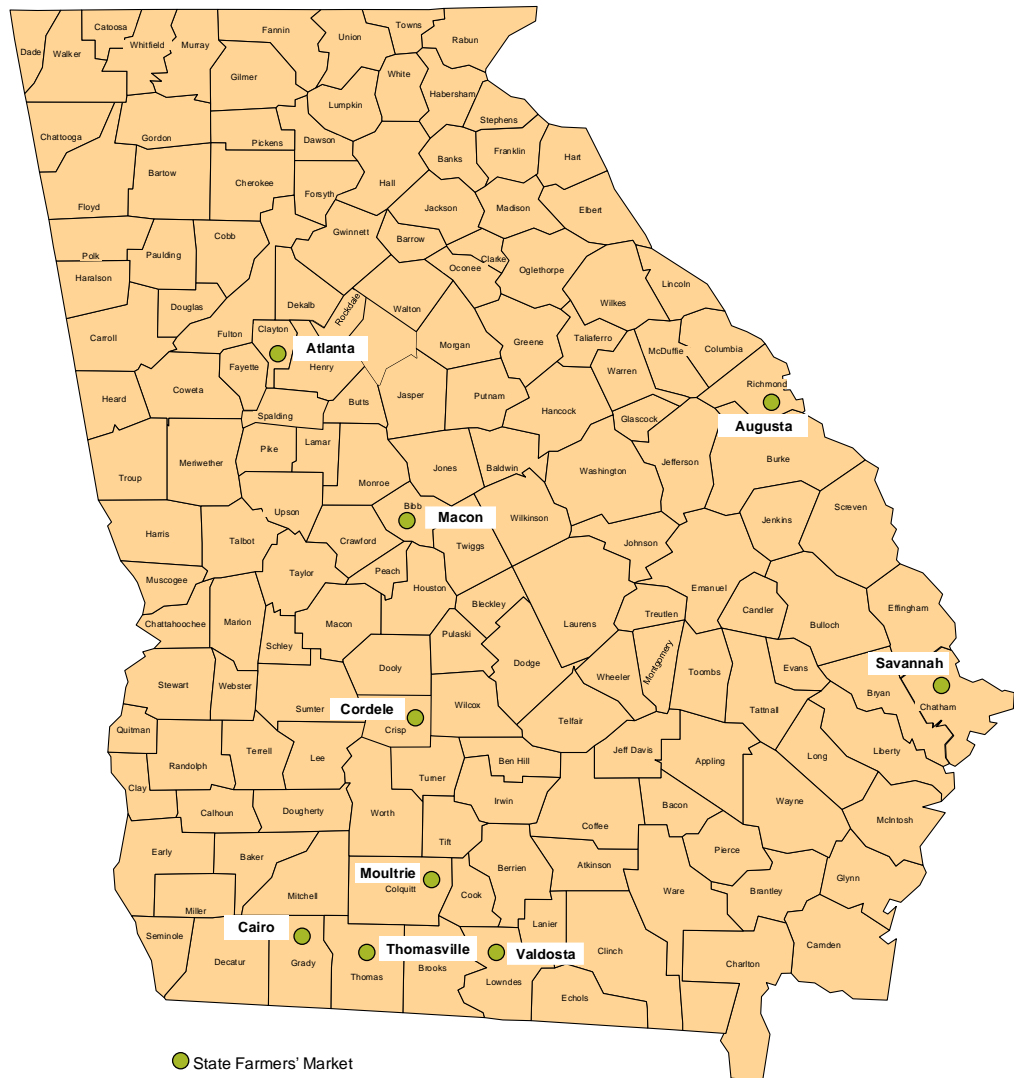
Overview of State Farmers' Markets

In 1935, the General Assembly enacted Public Law No. 44, authorizing "the Commissioner of Agriculture to establish farmers' markets in this State and...make necessary rules and regulations to properly conduct such markets." In addition, the law provided for the acquisition of "necessary property for the erection of necessary buildings and the improvement of market sites, etc., for the State, on which to conduct said markets."

The Georgia Marketing Act of 1981 (O.C.G.A. § 2-10-50 through 2-10-62) was established to "promote the handling, packing, transporting, storage, distribution, inspection, and sale of agricultural products." The Act further delineates the Commissioners' duties regarding farmers' markets, which it defines as "any place within this state where farmers or producers may sell, bring or send to sell, exhibit, or transship agricultural products; or where buyers may come to buy, inspect, or transport agricultural products; or where such products may be processed or stored for sale, either at wholesale or retail."

At the time of our 1988 performance audit of State Farmers' Markets Facilities Management, there were 21 state-run farmers' markets operational in Georgia. The number has declined over time due to closures, conveyances to local authorities, or privatization. Currently, nine state farmers' markets are being operated by GDA: Atlanta, Augusta, Cairo, Cordele, Macon, Moultrie, Savannah, Thomasville, and Valdosta. [Exhibit 1](#) on page 2 shows the locations of the nine existing markets.

**Exhibit 1
Locations of State Farmers' Markets**



Source: Georgia Department of Agriculture Records

Market Staffing

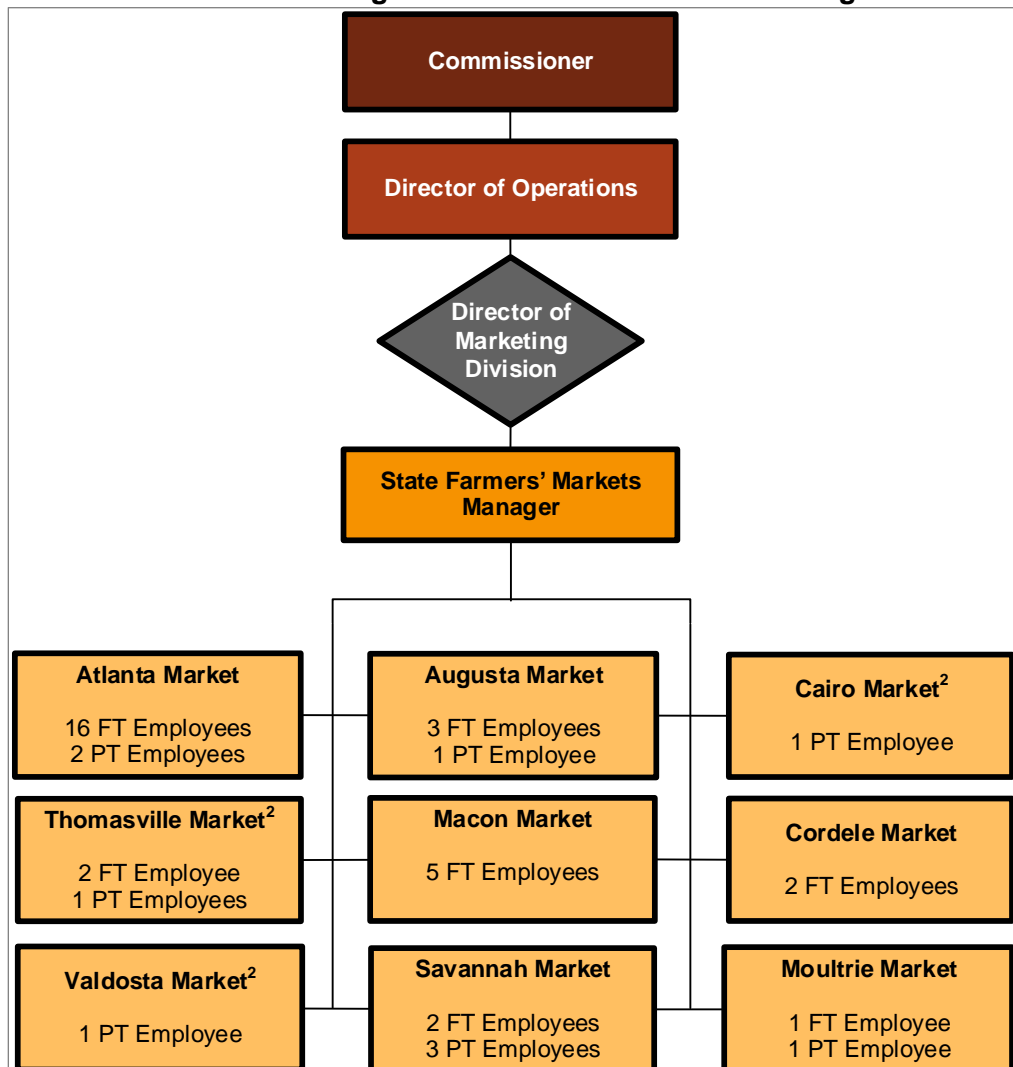
State Farmers' Markets are administered by GDA's Marketing Division. Marketing Division staff provide oversight of farmers' market operations, assist with lease negotiations as needed, prioritize major repair and renovation projects, and collect and summarize budget reports.

The nine farmers' markets employ approximately 40 full- and part-time staff. Seven full-time market managers oversee the day-to-day operations of individual markets (one manager oversees three markets).¹ The Atlanta Market manager, who reports to the Marketing Division director, is responsible for both management of the Atlanta market and supervision of the other market managers (Exhibit 2).

¹ Three of the markets share a market manager (Cairo, Thomasville, and Valdosta).

The remaining market staff consists of a combination of full-time and part-time employees whose duties include inspecting produce, collecting fees, and monitoring compliance with lease/rental agreements. Seven employees dedicated to maintenance of the markets (including a Director of Market Maintenance) are located at the Atlanta Market. The maintenance director oversees maintenance work across all farmers' markets, as well as any construction projects occurring on the markets.

**Exhibit 2
State Farmers' Markets Organizational Structure and Staffing Levels¹**



¹FT and PT indicate full time and part time employees.

²Cairo, Thomasville, and Valdosta markets share one market manager who is listed as a part time employee in this chart.

Source: Agency Documents

Market Operations

According to O.C.G.A § 2-10-52, a farmers' market is comprised of "all real and personal property, buildings, warehouses, storage facilities, barns, exhibition halls, and other structures, facilities, utilities, parking areas, streets, tracks, and other appurtenances and facilities...used or useful at such place in promoting the buying, selling, or exchange of agricultural products." As shown in Exhibit 3, the nine existing markets encompass a total of 289 acres and approximately 119² buildings (with about 2 million square feet of space). Of the 119 buildings on the markets, 59 are warehouses or enclosed sheds and about one-third (39) are open sheds/stalls. The remaining 21 buildings consist of restaurant and office space, security facilities, maintenance areas, classrooms, and miscellaneous space.

Exhibit 3

Overview of Market Location, Age, and Size

Farmers' Market	Location by County	Year Acquired	Size (in Acres)	Markets' Square Footage
Atlanta	Clayton	1956	150.20	1,226,973
Augusta	Richmond	1950	11.88	160,932
Cordele	Crisp	1947	30.00	147,155
Moultrie	Colquitt	1944	13.02	141,378
Thomasville ¹	Thomas	1970	9.23	103,610
Macon	Bibb	1976	30.05	102,738
Savannah	Chatham	1951	9.82	73,769
Valdosta	Lowndes	1945	22.34	26,685
Cairo	Grady	1953	<u>12.00</u>	<u>25,528</u>
Total	-	-	288.54	2,008,768

¹ The Thomasville Market, though acquired by the state in 1970, was already a functioning state farmers' market from around 1950.

Source: Georgia Building, Land & Lease Inventory of Property and market personnel

O.C.G.A. § 2-10-58 (a)(2) authorizes the Commissioner to "rent as landlord or lease as lessor...real property under the custody of or under rental to the department and utilized as a farmers' market for a term (period of time)...not exceeding 20 years and for such use and rental and on such other terms and conditions and to such persons or other entities as he believes, following his negotiation and investigation thereof, to be in the best interests of his office, the department, and the state." The Market Manager is responsible for assigning space and collecting fees for the cost of the space and associated utilities, if applicable.³ Terms and conditions associated with occupying space on the market, including the period of time the agreement is good for and rates

² GDA did not have an accurate count of buildings on market property; therefore, we estimated from the information GDA provided.

³ GDA regulation 40-9-2-.08 states that the cost of gas, private telephones, electricity and water, including installation and use, will be the responsibility of each dealer and farmer unless the Commissioner has specifically assumed such responsibility and has made other arrangements and deems it necessary to assess individual charges for use of utilities.

are established through leases or rental agreements that both parties (GDA and tenant) must sign.

Of the nine operational farmers' markets, five collect gate fees for all vehicles bringing products to deliver for resale or products to offer for sale at the markets.⁴ Per GDA regulation (40-9-7-.02 and 40-9-7-.04), loaded vehicles are required to stop at the entrance gate and pay the applicable fee, which is determined based on the number of axles on the vehicle. Gate fees are typically paid in cash at the gate (unless pre-payment arrangements are made) and range from \$3 to \$12 per vehicle. On an average day, the Atlanta Market collects fees for about 100 18-wheelers and other delivery vehicles.

Market Activities

According to O.C.G.A § 2-10-52, use of farmers' markets "facilities shall not be limited to the buying, selling, or exchange of agricultural products so long as their use promotes the buying, selling, or exchange of such agricultural products as determined by the Commissioner." The law specifically allows for farmers' markets to be used for "the sale of grocery items or other items commonly sold or offered for sale in conjunction with the sale of agricultural products." As shown in **Exhibit 4** and described below, activities occurring on the markets are a mix of agricultural-based and non-agricultural based activities.

Terminal Market (Atlanta)

A terminal market is a central site, usually located in a metropolitan area that serves as an assembly and trading place for agricultural commodities.

Created in 1956, the Atlanta Market is the largest of all the markets (1.2 million square feet of leasable space). It is unique because it serves as the marketing hub and distribution point for the Southeast United States and is commonly referred to as a terminal market. Products moving through the market are received by air, freight, and truck, so the market remains open 24 hours a day year-round to accommodate delivery schedules.

Due to the size and space available, the Atlanta Market can accommodate significantly more businesses than any other state-run market. It features several wholesale dealers of agricultural-based products (including seasonal fruits and vegetables, herbs and spices, and meat products) whose businesses are housed in warehouse and cooler space on the market. Wholesalers typically sell in mass quantities, so some businesses may not be open to the public. Related businesses offering transportation logistics and produce brokerage services occupy office space at the Atlanta Market.

The market is also home to a wholesale grocery store, garden center, restaurant, and gift shop featuring Georgia-based items. All are open to the public. The public also has access to the open shed space on the market, which houses local vendors selling seasonal produce and other items and is the site for seasonal, annual events, such as pumpkin and Christmas tree sales. The market's 38,000 square foot exhibition hall is where several year-round events take place, such as craft shows, exotic bird fairs, and gun shows.

⁴ The markets that collect gate fees are Atlanta, Augusta, Cordele, Macon, and Savannah.

Regional Markets (Augusta, Macon, Savannah, Thomasville, Cordele)

Five mid-sized, regional markets range in size from 74,000 to 160,000 square feet of leasable space, which house both retail establishments and/or wholesale dealers. Three of the markets (Augusta, Savannah, and Thomasville) have wholesale businesses and all have retail establishments that operate year-round. The Augusta and Savannah markets each house major wholesale tenants. In addition to wholesale and retail business operations, the Cordele Market is a major sales and distribution point for watermelons during the summer months. According to GDA, this seasonal activity creates jobs for more than a 100 day-laborers.

Other business activities occurring at these markets include truck scales (4 of 5 markets) and restaurants (4 of 5 markets). Several of the markets also host seasonal events/activities, such as Christmas tree sales.

Packing Facility (Moultrie)

The Moultrie Market (140,000 square feet of leasable space) also houses wholesale and retail businesses. For example, an ice company, country store, seafood market, and lawn and garden center are located at the Moultrie Market. In addition to these year round establishments, the Moultrie Market serves as a packing and distribution point for a variety of fresh produce items, including peppers, cabbage, and cantaloupe.

Satellite Facilities (Valdosta, Cairo)

The Valdosta and Cairo markets are the smallest farmers' markets (approximately 25,000 to 27,000 square feet) and are operated as satellite locations for the Thomasville Market. The Valdosta Market includes wholesale and retail establishments selling local produce, pecans, meats, and homemade goods. One store has a restaurant. The Cairo Market also houses wholesale and retail businesses specializing in locally grown produce.

Though all nine of the markets are operational year-round and have year-round staff, the hours of operation may vary depending on the growing seasons in the markets' service area. For example, Cordele is busiest during watermelon season, while the Moultrie Market is busiest during cantaloupe and pepper seasons. During these periods, hours of operation may extend beyond normal business hours.

Exhibit 4 Overview of the State Farmers' Markets

<p>Atlanta Market</p>  <ul style="list-style-type: none"> • Agricultural Brokers • Agricultural Wholesaler/Retailers • Grocery Store • Florist • Restaurant • Gift Shop • Trucking/Logistics Companies • Overnight Parking 	<p>Augusta Market</p>  <ul style="list-style-type: none"> • Agricultural Wholesaler/Retailers • Pharmaceutical company • Garden Center • Craft Brewery • Truck Scales • Restaurant 	<p>Cordele Market</p>  <ul style="list-style-type: none"> • Agricultural Retailer • Georgia Development Authority • Truck Scales
<p>Macon Market</p>  <ul style="list-style-type: none"> • Agricultural Retailers • Bakery • Meat Market • Bridal Shop • Restaurant 	<p>Savannah Market</p>  <ul style="list-style-type: none"> • Agricultural Wholesaler • Agricultural Retailers • Sign Shop • Florist • Spice Company • Restaurant • Truck Scales 	<p>Thomasville Market</p>  <ul style="list-style-type: none"> • Agricultural Retailer • Agricultural Wholesaler • Air Conditioning Repair Company • Carpenter • Restaurant • Truck Scales
<p>Cairo Market</p>  <ul style="list-style-type: none"> • Agricultural Wholesaler • Agricultural Retailer 	<p>Valdosta Market</p>  <ul style="list-style-type: none"> • Country Store • Agricultural Wholesaler 	<p>Moultrie Market</p>  <ul style="list-style-type: none"> • Ice Company • Restaurant • Garden Center • Seafood Market • Country Store • Clothing Store • Truck Scales
<p>Terminal Market <input type="checkbox"/> Regional Market <input type="checkbox"/> Satellite Market <input type="checkbox"/> Packing Facility <input type="checkbox"/></p> <p>Source: Department of Agriculture Information and Audit Team Photographs</p>		

Financial Information

Although they do not receive their own line item appropriation, the State Farmers' Markets are funded through an appropriation to GDA's Marketing and Promotion Program. Exhibit 5 shows fund sources and the expenses for farmers' markets in fiscal

years 2015 and 2016. State Farmers' Markets expenditures comprised approximately 53% of the Marketing and Promotion Program's total expenditures (\$7.4 million) in fiscal year 2016. GDA management indicated that, going forward, it plans to create a budget for the farmers' markets subprogram.

While GDA does not receive a direct appropriation of state funds for farmers' markets, the General Assembly has specifically directed bond funds for the construction and repair of farmers' market facilities. Facility repairs are funded with state funds while bond funds are reserved for larger repairs and projects at the markets. GDA officials indicated that five-year bonds are used for projects such as parking lot repaving at the markets and twenty-year bonds are used for longer-term projects, such as roof repairs or new building construction. For example, the fiscal year 2016 Appropriations Act included a \$9,000,000 twenty-year taxable bond to construct a new building at the Atlanta Market, which can be spent over the next several years. GDA spent approximately \$970,000 and \$430,000 in bond funds in fiscal years 2015 and 2016, respectively.

Exhibit 5
Farmers' Market Expenditures Have Declined Since Fiscal Year 2015

	2015	2016
Expenditures by Fund Sources		
State Appropriations	\$4,178,218	\$3,480,714
Other ¹	6,608	14,762
Total Operating Funds	\$4,184,826	\$3,495,476
Bond Funds ²	970,272	431,080
Total Funds	\$5,155,098	\$3,926,556
Expenditures by Category		
Personal Services	\$1,672,461	\$1,701,632
Regular Operating Expenditures ³	2,688,020	2,126,816
Capital Outlay ⁴	679,000	0
Telecommunications	68,094	78,539
Contracts ⁵	25,400	64
Other	20,000	0
Computer Charges	2,122	4,742
Motor Vehicles	0	14,762
Total Expenses	\$5,155,098	\$3,926,556
¹ Includes rental funds from the Department of Human Services and miscellaneous revenue. ² Includes bond funds from multiple bond issuances and for multiple purposes, including major renovations and repairs and capital outlay. ³ Includes bond-funded expenditures totaling \$970,272 in fiscal year 2015 and \$431,080 in fiscal year 2016. ⁴ Atlanta Market roof repairs funded by state appropriations. ⁵ Expenditures categorized as contracts in fiscal year 2015 were categorized as Regular Operating Expenditures in fiscal year 2016. Source: TeamWorks data, State Accounting Office policies, and interviews with GDA staff		

According to O.C.G.A. § 2-10-55 (a)(2), “the Commissioner shall have the authority to prescribe and collect reasonable fees and charges to pay the necessary costs of operating and maintaining farmers' markets.” All fee revenues are remitted to the State Treasury for deposit into the General Fund. As shown in Exhibit 6, fees collected for leases/rents, gate tickets, truck scales, and other activities totaled approximately \$6.9 million and \$6.8 million in fiscal years 2015 and 2016, respectively. The cost to administer farmers' markets was approximately \$4 to \$5 million during the same time-period.

Exhibit 6

Fees Collected by State Farmers' Market, Fiscal Years 2014-2016

Farmers' Market	FY 2014	FY 2015	FY 2016	Difference FY14 to FY16	Percentage Difference (FY14-16)
Atlanta	\$ 5,915,471	\$ 5,749,830	\$ 5,722,709	(\$192,762)	-3.26%
Augusta	\$ 268,201	\$ 219,189	\$ 214,141	(\$54,060)	-20.16%
Cairo	\$ 17,450	\$ 20,784	\$ 19,005	\$1,555	8.91%
Cordele	\$ 131,094	\$ 121,346	\$ 123,322	(\$7,772)	-5.93%
Macon	\$ 227,593	\$ 203,729	\$ 187,146	(\$40,448)	-17.77%
Moultrie	\$ 160,246	\$ 162,979	\$ 176,027	\$15,781	9.85%
Savannah	\$ 165,962	\$ 158,897	\$ 150,759	(\$15,203)	-9.16%
Thomasville	\$ 213,364	\$ 187,272	\$ 196,946	(\$16,418)	-7.69%
Valdosta	\$ 41,602	\$ 48,582	\$ 49,550	\$7,948	19.10%
Total Revenue	\$ 7,140,983	\$ 6,872,607	\$ 6,839,605	(\$301,378)	-4.22%

Source: Market personnel and audit team analysis

Findings and Recommendations

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.

Many of the farmers' markets outside Atlanta are underutilized due to declining demand from farmers and customers. Occupancy rates are low, some farmers' markets rent space to non-agricultural businesses, and several markets cost more to operate than they generate in revenue. Given these issues and the need for repair and maintenance of facilities at the markets, GDA and the General Assembly should evaluate the continued viability of each state-run farmers' market.

O.C.G.A. 2-10-58 (d) authorizes the Commissioner to close a farmers' market, indicating that consideration be given to "the need for the particular market from the standpoint of the marketing of agricultural products, the convenience of farmers and consumers, the cost of operating and maintaining the market, and other relevant factors."⁵ Since our last performance audit⁶ of state farmers' markets in 1988, GDA has ceased active management of 12 of the 21 markets identified in our previous report, many of which were conveyed to local governments, are privately leased, or are or in the process of being surplused.

In 2011, GDA commissioned a study by an outside firm to develop a plan to modernize and extend the useful life of the Atlanta Market, as described in the text box on page 12. Between fiscal years 2015 and 2016, GDA successfully secured a total of \$14 million⁷ in bond funds to implement the first phase of the plan. Similar assessments have not been performed for the remaining markets. Although GDA acknowledges the underutilization or lack of sufficient demand for several of the markets, there is concern that there is a lack of political support for either closing some or investing in the maintenance, repair, or repurposing of others.

Through site visits to the markets, discussions with market managers, our review of GDA documentation, and industry interviews, we identified the following challenges faced by the markets outside of Atlanta.

- **Demand for/interest in the markets is unclear.** According to representatives from the Georgia Farm Bureau, Georgia Agribusiness Council, and the Georgia Fruit and Vegetable Association, the markets are not practical for larger farming operations or those dealing with livestock. In addition, the number of smaller family farms that might still have a need for a farmers' market to do business has been declining. Depending on their size and needs,

⁵ According to O.C.G.A. § 2-10-58(d), "when a farmers' market is closed by the Commissioner, custody of the real property encompassing the farmers' market may be transferred, with the approval of the Governor, from the department to the State Properties Commission by an executive order of the Governor."

⁶ Performance Audit of State Farmers' Markets Facilities, Georgia Department of Audits, Performance Audit Division, 1988.

⁷ The General Assembly appropriated funding to GDA for the Atlanta Market through two bond issuances: a \$5 million bond in 2015 and a \$9 million bond in fiscal year 2016.

the farming industry has several alternatives to State Farmers' Markets to market and sell their products, including:

- *Produce brokers* – Brokers negotiate the sale of fruits and vegetables on behalf of another person. One industry representative explained that larger farms tend to sell products by the field through brokers because sitting at a farmers' market all day to sell product is not a sustainable business model.
- *U-pick operations and farm stands* – Part of a trend in agritourism, a u-pick or pick-your-own operation is a farm where customers may go to pick, cut, or choose their own product out of the field. Advantages for farmers include the reduced need for product harvest and handling labor, lower equipment costs, and the opportunity for larger transactions per customer. Similarly, farmers operating roadside farm stands—seasonal, temporary or semi-temporary structures that may be located on or off the farm—benefit from low overhead costs.
- *Community farmers' markets* – These markets are typically organized by farmers, community organizers, consumer groups, and municipal leaders to address consumer interest in locally grown produce and other agriculture products, maintaining a local agriculture base, and bringing economic activity back into the urban core or town center.

In addition, our efforts to survey potential users of the markets to obtain their views was met with a low response rate, which may indicate little interest in providing feedback on the markets. We sent surveys to 184 fruit and vegetable growers in Georgia and 80 current tenants of the markets (which include producers, wholesalers, and retailers) and received a total of 16 responses.⁸ A survey of farmers conducted on behalf of GDA had a similar response rate.

- **Non-agricultural businesses are occupying space at the markets.** Our site visits and our review of GDA documentation related to tenants on the markets identified non-agricultural-based businesses leasing space on 5 of 8 markets outside Atlanta. At the time of our review, these businesses included a florist, an ice company, an air conditioner repair company, a sign shop, a plumbing company, and a bridal shop.
- **Some market spaces are underutilized.** Currently, the markets do not track or report occupancy rates. Our limited assessment of space utilization as of March 2017 revealed that cold storage space is at capacity, but most markets have more dry storage, retail, and shed space than is needed. Although demand for shed space is higher during peak seasons (May to August), market managers indicated that shed spaces are never fully utilized, even during peak seasons. Low utilization of some market spaces may be directly related to their obsolescence.

⁸ In August 2016, we sent surveys to growers and current tenants of the farmers' markets. Of the 184 surveys sent to growers, we received six responses. Of 80 surveys sent to current tenants at the nine markets, we received 10 responses.

Atlanta State Farmers' Market

The Atlanta Market is a 24-hour major marketing hub that is used primarily by large wholesalers and brokers to distribute agricultural commodities across the southeast. The Atlanta Market is the most financially viable of all the markets currently operated by GDA, generating approximately \$6 million annually, which accounts for approximately 83% of statewide market revenues.

Commissioned through the Georgia State Finance and Investment Commission in 2011, the study of the Atlanta Market sought to identify future needs of the Market. GDA staff and major tenants of the market were involved in the assessment, providing insight into their business operations to help the study consultant understand their current and future needs.

Completed in 2013, the study resulted in a phased master plan to modernize and extend the useful life of the Atlanta Market. The plan improves existing market facilities, eliminates underutilized shed space and outdated buildings, and constructs new and/or additional retail and warehouse space at an estimated cost of \$918 million for all plan phases. GDA has started implementing projects in the first phase of the plan. In fiscal year 2015, GDA successfully secured a \$5 million bond for roofing repairs at the Atlanta Market. In fiscal year 2016, it secured an additional \$9 million in bond funds to construct a new wholesale cooler warehouse on the market. The cost of the study was approximately \$400,000.

- **Many facilities are outdated and need repair.** Many of the facilities at the markets were built as early as the 1940s and have not been substantially changed or modified since then. In addition, GDA has not inventoried and estimated the cost to do more costly repair of roofs, electrical systems, and plumbing that require maintenance and repair work, as discussed in the finding on page 14. Some buildings on the markets are no longer fit for the purpose that they were designed because they have not kept up with changing food safety or technological changes in the industry. For example, shed spaces do not meet food safety requirements for the sale of produce if they have exposed rafters. Exposed rafters provide birds a place to roost, which is not allowed.
- **Several markets have net revenue losses.** While the markets are not mandated by law to be self-supporting, the extent to which a market is able to cover its costs is one of several indicators of demand and the viability of a market. As shown in [Appendix C](#), five of the nine markets have expenses that exceed the amount of revenue they generate. It should be noted that the expenses reflect minimal maintenance and repair costs. As discussed in more detail on page 14, GDA has deferred much of the maintenance and repairs. Incurring costs for needed repairs and routine maintenance could significantly change the revenue-loss statements at some or all of the markets.
- **Visitation is low, even during peak seasons.** Currently, the markets do not track visitation. Overall, we observed low visitation in areas open to the public during our site visits.⁹ While some retail operations on the markets (e.g. restaurants, grocery stores) had steady customers, we observed fewer

⁹ Some wholesale operations on the markets are not open to the public.

customers in the shed areas where fresh produce is generally sold.¹⁰ GDA officials indicated that visitation is higher when there are events on the markets, such as farmers' showcases. However, the level of visitation seen during these events is not sustained with regular market activities.

RECOMMENDATIONS

1. GDA should evaluate the future direction of each of the farmers' markets outside of Atlanta. This may result in the decision to close some markets, increase investment in others, or commission a more formal feasibility study to determine how State Farmers' Markets can be improved or modernized to meet the needs of the agricultural community and the cost to do so. Consideration should also be given to alternate models for continuing to support agriculture in each community where there is a more limited need for a market, even if only on a seasonal basis.
2. As discussed on page 30, GDA should begin to collect and evaluate information for each of the markets to assist with an evaluation of their continued need and to better manage and monitor their activities and performance.
3. If the state chooses to continue to support some or all of the farmers' markets, GDA should take steps to address the issues identified in the remainder of the report to ensure proper accountability and stewardship of a large enterprise with nine locations (including the Atlanta Market), each with various revenue centers.

GDA's Response: According to GDA, the "reduction of market facilities was due to our ongoing evaluation of each individual market's financial viability and value to the agriculture industry." GDA noted that "the markets that remain continue to serve the needs of the agriculture industry and will continue to be evaluated to serve that purpose." Specifically, GDA indicated that it will monitor the financial health of the markets through regular assessments of expenses and revenues, develop a formal strategic plan for the markets (which is to be shared with the General Assembly), and partner with the University of Georgia (UGA) to evaluate the markets.

GDA also addressed several points made in the finding:

- *Demand for/interest in the markets is unclear.* GDA expressed the importance of the markets outside of Atlanta, indicating that they were never intended to be "practical for larger farming operations or those dealing with livestock." GDA described the markets as "economic center(s), home to dozens of small businesses and jobs, as well as an integral part of the regional agriculture economy." In addition, the markets are "key distribution points for large farmers' products" and provide "an employment base...in economically challenged areas."
- *Non-agricultural businesses are occupying space at the markets.* GDA stated that "non-agriculture based business only utilize a small fraction of space at these

¹⁰We conducted our site visits during peak season for six markets and non-peak season for the remaining three markets.

markets.” Additionally, GDA stated that “agriculture-based businesses are always given priority on any vacant space or space occupied for a non-agricultural purpose.”

- **Visitation is low, even during peak season.** According to GDA, “this statement is a generalization that does not reflect the changing nature of the state farmers markets.” GDA stated that “large parts of the farmers markets have transitioned with the industry from consumer-based areas to industrial distribution areas. While public visitation may be low, this is a poor barometer to judge the economic benefits of the markets. There is still a large amount of commerce that takes place at the markets.”

Auditor’s response: In the absence of information needed to understand the strategic direction of each market, we relied on limited data, interviews, and observations of market activities during our site visits to address the audit objective, “To determine if farmers’ markets are meeting the needs of Georgia’s agricultural industry and how the purpose and intent of farmers’ markets has evolved.” The number of jobs created and other indicators of economic impact noted on page 32 of this report is an example of exactly what GDA should seek to measure to assist it in determining the future viability of the markets.

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.

Although GDA is responsible for maintaining a significant amount of real property at nine State Farmers’ Markets— approximately 119¹¹ buildings (with about 2 million square feet of space), roads, and pavement—it lacks adequate resources to support a comprehensive maintenance plan (including a preventive maintenance program) to address maintenance and repair needs across the markets. As a result, GDA management indicated that the Director of Maintenance and the market managers have to make active choices about which projects to fund based on cost and severity. An effective maintenance and repair program minimizes repair costs and prolongs the life of farmers’ market assets.

Market managers (who are not required to have a background in facilities maintenance) are responsible for monitoring the condition of their market’s buildings and equipment, identifying maintenance and repair needs, and overseeing minor repairs. They are also responsible for reporting major repair needs (those costing \$1,000 or more) to the Director of Maintenance who, in consultation with GDA management, approves major expenditures. Depending on the level of expertise required for a project or the need for specialized equipment, maintenance and repairs may be performed by GDA’s market maintenance staff (who are located in Atlanta) or other market employees, outside contractors, or inmates.

¹¹ GDA did not have an accurate count of buildings on market property; therefore, we estimated from the information GDA provided.

Key Concepts of a Comprehensive Maintenance and Repair Plan

Maintenance is the work necessary to maintain the original useful life of a fixed asset. It is the upkeep of property and equipment. Maintenance can include the following:

- cyclical repairs performed on a specific cycle (e.g., replace roofs every 17 years);
- preventive maintenance where equipment is maintained according to a pre-established checklist and cycle (change generator oil every 100 hours or semiannually, whichever comes first); and
- breakdown maintenance, most of which can be repaired on a service order (e.g., burned out light bulb).

Repair is the work done to restore damaged or worn-out property to a normal operating condition. As a basic distinction, repairs are curative and maintenance is preventive. Repairs can be classified as minor or major. Major repairs are often those that can prolong the life of the property or equipment and may extend beyond the capability of existing maintenance personnel.

Replacement is the work done to replace an item of permanent investment or plant equipment, substituting one fixed item for another. Replacement may arise from obsolescence, wear and tear, or destruction.

Source: The Facility Management Handbook, 3rd Edition, David G. Cotts, Kathy O. Roper, Richard P. Payant, 2010.

While GDA's approach keeps the markets functional, it lacks important elements of a maintenance and repair program, the intent of which is to preserve farmers' market assets and minimize costs.

- **GDA has not established a budget for maintenance and repairs.** Decisions about maintenance and repairs are occurring without the context of a budget. While \$15 million in bond funds have been appropriated between fiscal years 2014 and 2016, 93% (\$14 million) was to be used specifically for major repair/renovation/construction projects at the Atlanta Market and the remaining 7% (\$1 million) was appropriated for major repair projects across all the markets (a portion of which is being held for emergency repairs). And, because State Farmers' Markets do not receive their own line item appropriation, no additional funds have been designated in the state budget for preventive maintenance and repairs not covered by bonds. To address these maintenance and repair needs, GDA has to rely on the availability of limited state funds or place the projects on hold.
- **GDA has not established a maintenance and repair work plan.** GDA management, the Director of Maintenance, and the farmers' market managers (including the supervisor of market managers) told us they have regular conversations about maintenance and repair needs. However, GDA does not keep an inventory of these needs and their estimated costs as part of a comprehensive plan for maintaining the markets.

According to facilities management best practices¹², the annual work plan should include major maintenance and repair projects listed in priority order (including a designation of critical and non-critical maintenance

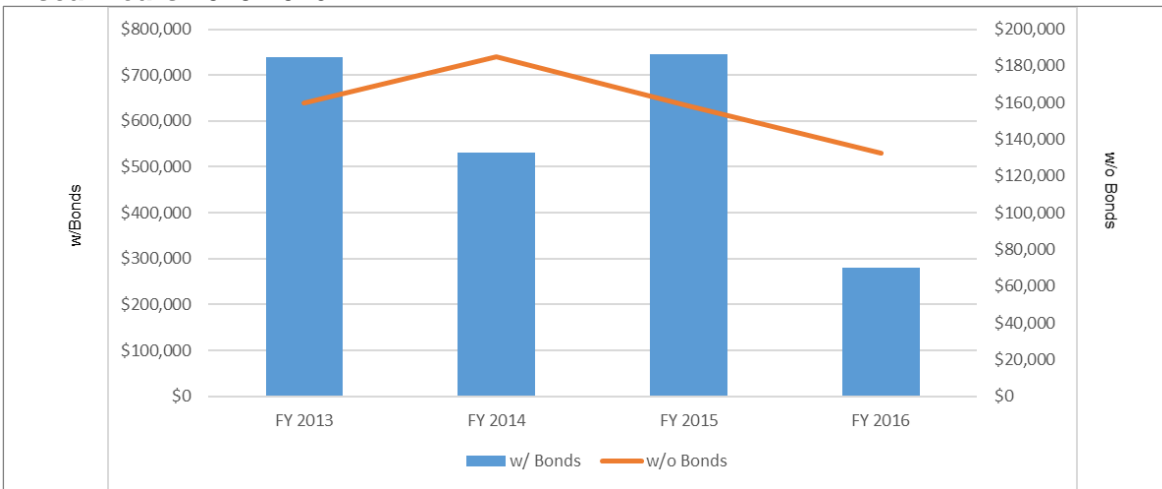
¹² The Facility Management Handbook, 3rd Edition, David G. Cotts, Kathy O. Roper, Richard P. Payant, 2010.

and repair needs), a lump sum for preventive maintenance, and a lump sum for routine service order maintenance and repairs. Planning at this level would serve as the basis for budget requests and would allow GDA to establish a separate budget for maintenance.

- **GDA does not focus on preventive maintenance.** Our discussions with GDA's Director of Maintenance found that preventive maintenance is not emphasized. Most work is done to make needed repairs which, according to the Director of Maintenance, are made to facilities as issues arise. Excluding the Atlanta Market, our review of maintenance expenditures in fiscal years 2013 through 2016 revealed that GDA paid approximately \$160,000 per year (plus approximately \$400,000 in bond funds) on average over the four-year period on maintenance and repair work, including costly emergency repairs that might have been avoided with a preventive maintenance strategy.

According to GDA management, it has not had sufficient funding to fully maintain the markets for years. Our review found that appropriations to GDA's Marketing and Promotion Program declined by 39% since 2009, which GDA management believes has impacted spending on farmers' markets' maintenance. As shown in Exhibit 7, our analysis of maintenance and repair costs found that, when bond-financed repairs are excluded, expenditures at the eight markets outside of the Atlanta Market have declined overall since fiscal year 2013, representing 3.4% of total State Farmers' Market expenditures in fiscal year 2016. And, while bond funds directed at major repairs for all the markets have helped cover the cost of major repairs for several years, available funds are being depleted. Our review found GDA had approximately \$300,000 remaining on the \$1 million bond at the end of fiscal year 2016, and GDA management does not anticipate receiving any additional maintenance funding. Continuing to fund maintenance of the markets at this level could result in further deterioration of infrastructure, an increase in repair backlogs, and increased repair costs.

**Exhibit 7
Excluding Bond-financed Projects, Farmers' Market Maintenance and Repair Expenditures are Declining (excludes the Atlanta Market), Fiscal Years 2013-2016**



Maintenance and Repair Expenditures (Includes Bond Funds)									
Fiscal Year	Augusta	Cairo	Cordele	Macon	Moultrie	Savannah	Thomasville	Valdosta	Total
FY 2013	\$63,794	\$17,145	\$65,168	\$68,098	\$231,589	\$50,212	\$150,172	\$91,986	\$738,165
FY 2014	\$102,669	\$873	\$56,775	\$99,584	\$175,017	\$54,051	\$20,299	\$22,133	\$531,403
FY 2015	\$20,581	\$9,303	\$356,834	\$34,617	\$212,061	\$48,770	\$32,037	\$31,433	\$745,638
FY 2016	\$6,184	\$328	\$57,949	\$26,194	\$90,595	\$43,851	\$42,886	\$13,026	\$281,012
Total	\$193,228	\$27,650	\$536,725	\$228,494	\$709,263	\$196,884	\$245,394	\$158,579	\$2,296,217

Maintenance and Repair Expenditures (Excludes Bond Funds)									
Fiscal Year	Augusta	Cairo	Cordele	Macon	Moultrie	Savannah	Thomasville	Valdosta	Total
FY 2013	\$11,544	\$3,189	\$54,369	\$29,104	\$14,760	\$25,312	\$14,322	\$7,331	\$159,932
FY 2014	\$24,084	\$873	\$50,180	\$41,690	\$8,162	\$44,551	\$12,669	\$2,776	\$184,987
FY 2015	\$15,634	\$2,098	\$64,389	\$27,992	\$12,265	\$18,273	\$10,304	\$7,402	\$158,358
FY 2016	\$6,184	\$328	\$52,642	\$17,390	\$12,338	\$29,201	\$9,980	\$4,426	\$132,488
Total	\$57,447	\$6,489	\$221,580	\$116,177	\$47,525	\$117,337	\$47,276	\$21,935	\$635,766

¹ Figures do not include the cost of market personnel (e.g., Atlanta market maintenance staff, market managers) who may perform repairs at these markets.

Source: PAD Analysis of GDA expenditure data

Substantial investment may be needed to overcome a maintenance and repair backlog. As discussed in the finding on page 10, none of the markets outside of Atlanta have had a comprehensive assessment of their condition and estimated repair costs. However, at the request of the audit team, a team of engineers with the Georgia State Finance and Investment Commission (GSFIC) assessed three of the markets in June 2016: Cordele, Moultrie, and Thomasville. At the time of GSFIC's assessment, the overall condition of the three markets was rated as good, though some building elements (e.g., structure, roof, plumbing, electrical) were rated anywhere from poor to good condition. As summarized in Exhibit 8, GSFIC's cost estimates for repair needs identified through its assessment totaled \$3,491,000 for all three markets, which increases to \$5,236,500 when contingency and other fees are included. The cost estimate for repairs at the three markets combined is more than 18 times the maintenance expenditures for those markets in fiscal year 2016. See [Appendix D](#) for a more detailed summary of GSFIC's assessment.

Exhibit 8
GSFIC Estimates Repair Costs of \$3.5 million to \$5.2 million For Three Markets, Fiscal Year 2016

Estimated Cost of Repairs	Cordele	Moultrie	Thomasville	Total
Total Construction Cost	\$2,045,000	\$764,000	\$682,000	\$3,491,000
Contingency + Fee ¹	409,000	152,800	136,400	698,200
Architectural Fees (at 10%)	245,400	91,680	81,840	418,920
Owner Contingency (at 10%)	245,400	91,680	81,840	418,920
Market Conditions & Unforeseen (at 5%)	122,700	45,840	40,920	209,460
Total Construction and Contingency Cost	\$3,067,500	\$1,146,000	\$1,023,000	\$5,236,500

¹Contingency + Fee is 20% of total construction cost.

Source: GSFIC Assessments

RECOMMENDATIONS

1. Working with the General Assembly, GDA should determine if assessments to determine the cost of repairs, replacement, and preventive maintenance at each of the markets would be useful in decision-making about the funding of the markets or the future direction of each market.
2. For the Atlanta Market and any markets that will continue to operate, GDA should develop an annual maintenance and repair plan and budget. The plan should include preventive maintenance to reduce repair costs and ensure a longer life of market assets.

GDA's Response: GDA stated that it "is aware of the extensive amount of maintenance and repairs currently required at the markets and anticipated in the future." However, GDA stated that it has not been able to proactively address deteriorating conditions of market facilities "due to lack of funding and resources." GDA indicated that, "contingent upon funding...the agency will establish a Facilities Manager (full-time) role." The manager would "create preventive maintenance schedules [and] minor and major repair plans, and oversee upkeep of the facilities, along with the establishment of maintenance budgets." GDA further noted that, if funding becomes available, it would contract out for an evaluation of each of the markets similar to the one conducted for the Atlanta Market.

GDA's agreement with the Atlanta Produce Dealers Association and lease rate setting practices may not be in compliance with the state's gratuities clause.

The Gratuities Clause of the Georgia Constitution prohibits the General Assembly and state agencies from granting any donation or gratuity and forgiving any debt.¹³ In 1971, the Attorney General determined that the gratuities clause prohibits the state

¹³ 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).

A gratuity is defined as "something given freely or without recompense; a gift." Garden Club of Ga. v. Shackelford, 266 Ga. 24 (1995); McCook v. Long, 193 Ga. 299 (1942).

from conveying real property for less than fair market value.¹⁴ A later court decision, however, found that a gratuity does not exist if the state accepts in-kind services of an equivalent value in lieu of money. Through an agreement, the Atlanta Produce Dealers Association (APDA)¹⁵ operates a welcome center, gift shop, and a 38,000 square foot exhibit hall, and conducts marketing activities to promote the Atlanta Market. In exchange, APDA retains all revenue generated by these facilities to cover operations costs. However, GDA does not monitor the agreement to ensure the revenues collected approximate the cost to operate the facilities or to determine a substantial benefit to the state. Similarly, GDA has not documented the substantial benefit to the state of leasing space at the markets to tenants for less than fair market value. GDA does not have a formal method for setting lease rates, but rates are intended to be lower than fair market value as a show of support for the agriculture industry.

APDA Agreement

In December 2009, under the previous Commissioner of Agriculture, GDA entered into an agreement with APDA "to establish an information resource for patrons of the retail operations at the Atlanta State Farmers' Market by providing way-finding¹⁶, retail products and information for the public on agritourism, and other tourism opportunities located throughout the State of Georgia." In addition, the agreement states that APDA wishes "to cooperate with the Department in its effort to create a positive and lasting impression of agribusiness through public outreach, programs, events and activities at the Market." The agreement is in-kind (meaning payment is made in the form of goods and services rather than cash) and it runs from January 1st to December 31st, automatically renewing each year unless one or both parties agrees to terminate.

According to an APDA representative, the agreement was an effort by the previous Commissioner of Agriculture to transfer responsibility for operating the Atlanta Market's Welcome Center to APDA so that the department did not incur additional expenses related to its management. As shown in **Exhibit 9**, the agreement outlines what services each party will provide and what each will receive in return. In addition to the services outlined in the exhibit, the agreement states that APDA will promote and encourage special events at the Atlanta Market to further the goal of promoting the market as a vital community resource.

The agreement, however, lacks reporting provisions that allow GDA to ensure 1) it is receiving agreed-upon services from APDA and 2) it is not granting a gratuity or donation to APDA. The agreement lacks reporting requirements on its activities related to use of the spaces on the Atlanta Market and revenues and expenditures associated with operating the facilities. We sought to obtain this type of information from APDA directly, and submitted a request for activity and revenue data in July 2016. Despite several attempts, we did not receive a response to our request.

¹⁴ Attorney General Opinion U71-17.

¹⁵ The APDA is a nonprofit established in 1947 and located at the Atlanta State Farmers' Market. The organization consists of members from the surrounding area with an interest in Georgia's agricultural industry, ranging from wholesalers and retailers to banks and other businesses. It serves as a liaison between its members and state or local government and advocates for the industry in the face of legislative issues and more.

¹⁶ Information provided to help orient visitors to the layout of the market.

Exhibit 9
Agreement outlines responsibilities for GDA and APDA¹

		Welcome Center	Gift Shop	Exhibit Hall	Conference Room
GDA-Provided Services	Space	Yes, at no charge			Yes, agreement is silent on charges (if any)
	Maintenance Services	Yes			Agreement is silent
	Janitorial Services	Yes			Agreement is silent
	Seasonal Landscaping	Yes			NA
	Utilities (power, water, and gas)	Yes			Agreement is silent
APDA-Provided Services	Operations Responsibilities	Yes		None	
	Sales Proceeds	Agreement is silent	Retains to operate/market Welcome Center	Retains leasing fees to operate Welcome Center & Gift Shop	

¹ Per the agreement, GDA will also make a trolley and driver available to APDA for market tours, provided that APDA reimburse GDA \$10/hour for trolley tours. GDA is responsible for the maintaining and operating the trolley. However, the trolley is no longer operational.

Source: GDA documents

Market rent is the generally accepted price to lease a space for residential or commercial purposes.

Lease Rate Setting

As discussed in detail in the finding on page 21 and in our 1988 performance audit of State Farmers' Markets Facilities, GDA may not be charging tenants an appropriate amount to lease space on the markets. Although GDA has not determined what market rents are for spaces on farmers' markets, its intent, according to GDA management, is that the rates are lower by comparison in an effort to support agriculture. However, our review found that proper consideration had not been given to the possibility that discounted lease rates could result in the granting of a gratuity to tenants. This places the department at risk of noncompliance with the gratuities clause, unless there is a substantial benefit to the state in exchange for discounted lease rates, as determined by GDA's assessment. According to attorneys with Office of the Attorney General, charging tenants fair market value for the use of market facilities ensures compliance with the gratuities clause.

RECOMMENDATIONS

- GDA should re-evaluate the APDA contract and determine desired outcomes of the agreement. If GDA determines the agreement should be continued, it should:

- a. seek advice from the Office of the Attorney General on what provisions should be included in the agreement and revise the agreement. At a minimum, the agreement should be modified to remove outdated deliverables (e.g., trolley services) and establish reporting requirements, such as marketing activities, visitation rates, costs to operate facilities, and fees and revenues collected.
 - b. document market rent of spaces used by APDA on the Atlanta Market per the agreement, as well as document any operations and maintenance costs covered by GDA.
 - c. monitor the agreement (through newly established reporting requirements) to ensure 1) the state is receiving substantial/equivalent benefits from APDA and 2) the provisions of the agreement are adhered to.
 - i. If APDA is unable to provide the requested information necessary to demonstrate that the state is receiving equivalent services for the value of the market spaces, the agreement should be terminated.
2. As discussed in detail in the next finding, GDA should determine the market rent for spaces at each of the markets. In addition, GDA should ensure it documents the rationale for any discounts applied to market rents.

GDA's Response: "GDA acknowledges that the APDA agreement as it currently exists may need revision to ensure that the equivalent services are being received." GDA indicated that its legal staff would work "in conjunction with the State Attorney General's office...to conduct a detailed evaluation of the APDA contract, lease rate policies, and fee schedules to determine if changes are needed." GDA stated that, "if necessary, [it] will consult with the State Properties Commission on adjustments...of lease rates, fee schedules, and discount guidelines."

GDA should review its lease rate setting practices to ensure the practices are uniform across markets and that the rates in effect are adequate.

Our review found that GDA has not established a formal methodology for setting lease rates at State Farmers' Markets, which could lead to rates that are below market rent (and, in turn, result in noncompliance with the gratuities clause) and inconsistencies in the rates tenants pay for similar types of spaces. In establishing lease rates, GDA should take into account market rent for similar types of spaces, which would consider factors such as property age, condition/improvements, and geographical location of the markets, and the amount needed to minimize net revenue losses at several of the markets.

Individual market managers, in coordination with the State Farmers' Market Manager, determine what lease rates should be based on their experience and knowledge of the properties and surrounding area. However, our review of 106 leases, other GDA documents, and discussions with GDA management and market staff revealed inconsistencies in the methods used to determine lease rates and the absence of key considerations in current lease setting practices, as discussed in more detail below. It should be noted that many of these issues were also identified in our 1988 performance audit.

- **A schedule of base lease rates has not been established using comparable space in the local area.** We were not able to obtain a schedule of lease rates for five of the nine markets (Augusta, Cordele, Macon, Moultrie, and Savannah). And, the extent to which the market managers who oversee the remaining four markets based their lease rates on comparable space in the local area is unclear. Our 1988 audit, which included a comparison of lease rates at 16 farmers' markets in existence at the time and local commercial lease rates for warehouse and office space, indicated that farmers' markets' rates were below commercial rates in 10 cases (63%), similar to commercial rates in four cases (25%), and above commercial rates in two cases (12%). The analysis was conducted using commercial lease rate data obtained from a rate survey performed by GDA personnel and supplemented with information obtained from private businesses. However, GDA has not conducted any recent research concerning lease rates for local commercial space. GDA management expressed its concerns that it would be difficult to find comparable space for comparison purposes. However, GDA could seek assistance from the State Properties Commission, which is actively involved in lease rate setting for state-owned properties across the state.
- **Lease rates do not consider the amount needed to achieve a break-even.** As noted in our 1988 performance audit, lease rates are not set to ensure that costs to operate and properly maintain market facilities are recovered. As discussed on page 12 and illustrated in [Appendix C](#), our review found that five of the nine markets had net income losses between fiscal years 2014 and 2016, and four of the same markets were in similar circumstances in our 1988 performance audit. GDA management expressed concern over expectations that markets be self-supporting, indicating that this is not an intent of farmers' markets. In addition, GDA management indicated that an increase in the cost to utilize the markets could potentially result in the loss of tenants.

Our review of current leases also revealed other practices that do not span across all the markets, but may also lead to inconsistency in lease rates charged to tenants utilizing similar types of spaces.

- **Tenants' lease rates increased mid-term or were adjusted for seasonal demand.** Rather than rates being increased at lease renewal, we found six instances where tenants' rates were increased every six months. Although these leases had 2-year, 3-year, and 6-year terms, seven other multi-year leases had no such provisions. In addition, our review identified two tenants whose rates varied based on peak and non-peak season. One of the tenant's rate increased by 112% during peak season.
- **Some tenants lease rates included utilities.** Our review found that in 22 instances, tenants were paying a flat rate for utilities (ranging from \$15 to \$175) because their leased spaces are not separately metered. However, it is unclear whether the fees are based on estimates of actual usage. If tenants are underpaying for utilities, GDA may be granting a gratuity.

RECOMMENDATIONS

1. GDA should consider utilizing local appraisers and/or contacting local private businesses with similar spaces to determine and periodically update market rents for spaces at each of the markets. GDA could consult with the State Properties Commission, which hires qualified professionals to conduct appraisals of spaces to set appropriate rates for leases with private businesses and individuals. Once market rents have been determined, GDA should maintain a fee schedule by market and by type of facility.
2. GDA should document any deviations from fee schedules and provide an explanation for the deviation. To ensure compliance with the state's gratuities clause, discounted lease rates should be accompanied by an assessment of the substantial benefit flowing to the state in return.
3. GDA should establish policies covering all aspects of the lease-rate setting process, including how and to what extent lease rates are to be adjusted over time and how construction costs, utilities, and other additional costs should be handled. In addition, GDA should consider establishing a formal methodology for setting utility fees for those spaces not separately metered.

GDA's and Auditor's Responses: GDA stated that "we understand the need to ensure that we have documented processes for establishing and maintaining leases at all the markets" and indicated that it "will review its current lease practices and policies and implement new practices based on our analysis." GDA also addressed several points made in the finding:

- *A schedule of base lease rates has not been established using comparable space in the local area.* According to GDA "the other markets are too small (with a variety of building structures) for a lease rate schedule to be useful."
- *Tenants' lease rates increased mid-term or were adjusted for seasonal demand.* "Due to the characteristics inherent in the agriculture industry, many of our markets are seasonal in nature. Therefore, demand grows during harvesting seasons. Our lease rates reflect these seasonal changes in demand. In addition, new tenants will sometimes receive a reduced rent during their move-in period or as they make improvements to the facility. These lease variations are a standard industry practice."
- *Lease rates do not consider the amount needed to achieve a break-even.* GDA stated that "due to the disconnect between revenues and appropriations..., it would be unreasonable for GDA to match lease rates to operating costs. For example, because the operating budget of the Atlanta market is so limited, GDA would have to drastically reduce lease rates in order to reach a goal of break-even. Furthermore, the goal of break-even would undermine the markets' mission to serve the agricultural industry and provide economic development."

Auditor's response: Any method established by GDA to determine lease rates at the markets should take into consideration the full and true cost of operating market facilities versus the markets' operating budgets, which are set artificially low.

GDA's lease management practices expose GDA to unnecessary risks.

Our review of current lease agreements revealed improperly executed agreements, unenforced lease terms, and lease documents lacking key provisions. This is potentially due to GDA's decentralized approach to lease management, which places much of the responsibility for managing lease agreements with individual market managers, and a lack of documented policies and procedures related to lease administration. Without additional controls and oversight, GDA cannot be assured that its liability is limited and the state's assets are protected.

The lease agreement is a legally enforceable contract that should provide security to both tenants and GDA.

Leases are initiated by market managers who, in coordination with the State Farmers' Market Manager, are responsible for negotiating lease agreements, acquiring tenant signatures, forwarding signed agreements to the central office in Atlanta for final signature by the Commissioner, and enforcing lease terms. Market managers are not required to have expertise in lease administration, and GDA has not developed comprehensive guidance in the form of policies and procedures to assist them in understanding their responsibilities. As a result, the effectiveness of the lease agreements as a control is weakened. Our review of 106 leases identified the issues shown in Exhibit 10 and discussed in more detail below.

Exhibit 10

Most of the 106 Leases Reviewed Were Not Properly Executed or Contained Errors

Issue Identified	Number of Leases with Issue ¹
No Issues Identified	11
Not Renewed in a Timely Manner (Expired)	27
Signed After Lease Began, Dated Incorrectly, Not Dated	62
Missing Signatures (Commissioner or Tenant)	15
Not Clearly Signed by the Appropriate Party (lease does not include title or relationship of signer to lease)	64

¹ Some leases have more than one issue and are included in multiple categories; therefore, the number of leases will not total to 106.

Source: Audit team analysis of Farmers' Market Leases

Improperly Executed Leases

- **Leases are not renewed in a timely manner.** We also identified 27 of 106 (25%) expired leases ranging from 2 months to 9 years after the last document GDA could provide.
- **Leases were not signed prior to the beginning of lease terms, were not dated, or included incorrect dates.** GDA does not ensure that leases on file are signed prior to the lease term and are up-to-date, risking the state's ability to enforce the terms of the lease and initiate legal action against tenants if needed. According to attorneys with the Office of the Attorney General, documents should not be retroactively signed by tenants but should be executed on or before the start of the term. Of the leases provided, 48% (62 of

106) of leases were signed after the term began ranging from 1 to 211 days, were not dated, or were dated incorrectly.

- **Leases were missing signatures or were not signed by the appropriate party.** While some leases were fully executed including signatures, some were not signed by a representative of the business listed in the terms as the tenant or were missing at least one required signature, which may impact the legality of the contract. Attorneys with the Office of the Attorney General advised that leases should be signed by an individual business owner or, in the event of multiple owners, at least one of the authorized signatories (e.g., the Commissioner or the tenant did not sign the lease). Of the leases provided, we identified 14% (15 of 106) of leases that were missing at least one required signature. In addition, the audit team could not tell how the individual signing the lease was related to the tenant for 64 (70%) of the remaining 91 leases. For example, the majority of these leases had a business listed as the tenant but an individual signed the lease document with no indication of how the individual was related to the business (e.g., title or owner) and had legal authority to sign on behalf of the business.

Lease Terms not Enforced

- **Late Fees Not Assessed.** Interviews with the market managers indicated that they do not charge late fees for rent payments that are made after the due date. According to leases we reviewed, tenants are required to pay rent by the 10th of each month, otherwise a late fee of 1% of the rent amount due or \$25, whichever is greater is applied.
- **10 Year Payback default.** GDA may make improvements to leased spaces at tenants' requests. When this happens, tenants are responsible for the full cost of the improvements to the space. Repayment terms are generally established in lease agreements and typically span 10 years, with amounts due monthly, in addition to regular lease fees and utilities (if applicable). However, our review found that lease agreements do not include provisions related to how repayments are to be handled in the event a tenant voluntarily vacates its space at the market prior to payment. This poses a significant financial risk to GDA, especially since all five¹⁷ tenants with a 10-year payback are under one-year leases. For example, our review of leases found that one tenant under a one-year lease vacated space on a farmers' market with approximately \$66,000 outstanding on a 10-year payback of \$96,000. As discussed in the finding on page 29, GDA has not established customer accounts that would allow it to track this sort of activity across all the markets.
- **Required Liability Insurance Not Enforced.** Leases require tenants to maintain liability insurance that lists the state as co-insured, but the amount of liability coverage tenants should maintain, is not explicitly stated and only three of the nine markets require tenants to provide documentation of liability insurance. Because GDA does not specify the amount of coverage required, there is a risk that any coverage obtained by tenants may be insufficient to

¹⁷ An additional three tenants have paybacks that end in 2018 and 2020, but the date the payback began was unavailable.

cover personal injury or property damage that could occur, leaving the state liable for excess costs. Similarly, not obtaining proof of coverage places GDA at risk of potential lawsuits or being responsible for expenses related to property damage or personal injury in the event the coverage is not current.

Leases Lack Important Elements

- **Leases do not include a security deposit requirement.** It is common practice for tenants to provide a security deposit in case of damages, back rent, or any other issues that may arise after the lease term has ended or if the space is vacated prior to term completion. GDA, however, does not include a security deposit requirement or any other form of security protecting the markets from losses associated with damages or tenants' failure to fulfill lease terms. Should such terms be included, the state would have means to cover damages or recoup rent owed if a tenant damages market property or leaves prior to the end of the lease. Also, if implemented, GDA staff would not have to locate the tenant to request repayment. There have been instances where tenants have left without paying the rent owed.
- **Leases do not include equipment located in some market spaces.** GDA does not include specialized equipment found in certain market spaces in lease agreements. It is common for leases to include a description of the space being leased including existing equipment along with consequences for not properly operating/maintaining the equipment (generally monetary) as a deterrent. While many market spaces do not have specialized equipment, there are a significant number that do, such as commercial kitchen equipment or refrigeration equipment in cooler spaces. Should the equipment become damaged, the state may not be able to recover damages if the equipment is not explicitly included in the lease along with tenant responsibility related to repairs.

It should be noted that we found one instance in which a rental agreement was used when a lease agreement would have been more appropriate. Although the tenant uses space at a farmers' market only four months out the year, it has leased the same space—an enclosed warehouse that includes both dry and cooled space and associated cooler equipment—for at least four years. A lease agreement, which includes provisions related to equipment maintenance and repair, GDA's right to enter and inspect, and liability insurance, provides more protection for both GDA and the tenant. Rental agreements are more appropriate for open shed spaces, which lack the type of equipment included in enclosed spaces.

RECOMMENDATIONS

1. GDA should consider centrally managing its leasing function and assign one or more individuals primary responsibility for lease administration. This would ensure a complete inventory of current lease agreements is properly maintained and all leases are properly executed. In addition, individuals with primary responsibility for leases could consult with legal staff prior to executing leases to ensure lease terms are consistent with GDA policies.
2. GDA should establish and document policies and procedures related to lease administration. Policies should outline specific responsibilities of GDA staff

with an active role in lease administration and tenants on the markets. Policies could also address such aspects as lease terms (and other provisions) for tenants with 10-year payback arrangements and required liability coverages. GDA should consult with the State Properties Commission in creating an appropriate lease management process.

3. GDA should develop a standardized lease agreement and ensure it includes important provisions, including those related to security deposits and specialized equipment, as applicable. GDA's policies related to lease management should require the use of the standard agreement.
4. GDA should establish controls to ensure all lease terms are properly enforced.

GDA's Response: According to GDA, "it is committed to ensuring that all of its lease documents are in compliance and properly executed." GDA indicated that it "has established procedures to centralize collection of the leases." In addition, GDA noted it intends to electronically "track, centralize and manage market lease documents" and require legal staff to "review the agency's standard lease agreements for inconsistencies and necessary changes." If funding becomes available, GDA stated that it would "establish a new financial position that is responsible for enforcing leases and managing the accounts receivable process."

With the exception of the Atlanta Market, certain cash management practices at six state farmers' markets are not in compliance with state accounting policies.

At the time of our review, GDA had not established procedures for collection, safeguarding, depositing, and managing cash that were in compliance with requirements set forth in State Accounting Office (SAO) policies. SAO's State Accounting Manual indicates that state agencies are responsible for properly securing, depositing, and recording all funds received. This includes ensuring that responsibilities related to receiving and recording cash receipts are handled by multiple employees whenever possible. In fiscal year 2016, GDA had cash collections of approximately \$500,000. As it currently functions, the lack of cash management controls creates an environment that may lead to fraud or theft.

While we did not conduct a comprehensive review of GDA's cash management practices during our site visits, we observed issues with the manner in which cash was handled and managed at six of the seven state farmers' markets that accept cash payments.¹⁸ Issues identified across the six markets are discussed below.

- **GDA is not ensuring that cash receipts are properly secured.** According to the State Accounting Manual, agencies are required to secure and safeguard their cash receipts. Although they collected large

¹⁸ We did not observe issues with the specific cash management practices at the Atlanta Market. Two of the eight remaining markets did not accept cash payments.

amounts of cash, we noted that three of the markets¹⁹ did not have working safes to store cash and checks prior to deposit. After we brought this to the attention of GDA management, steps were taken to ensure cash is properly secured.

- **GDA is not ensuring that cash collections are accepted using pre-numbered cash receipts.** According to the State Accounting Manual, pre-numbered receipts are required to be issued for all monies when received. Pre-numbered receipts can help reduce the risk of theft or misappropriation of cash by facilitating the monitoring process which helps ensure all cash collected is deposited in full. We found that one market was not using sequentially pre-numbered receipts for certain transactions such as conference room rentals. This makes it very difficult to reconcile and ensure that all transactions are accounted for.
- **Deposits are not made at frequencies required by state policy.** According to the State Accounting Manual, state agencies are required to deposit all cash receipts daily, unless total receipts are less than \$500 or a waiver has been granted by the State Accounting Office. Our review found that no waivers had been granted to GDA for farmers' markets. In addition, with the exception of the Atlanta market²⁰, our review of deposits at six of the remaining markets²¹ found cash deposits were being made once or twice per month and 65% (100) of 154 total cash deposits exceeded the \$500 requirement. The risk of cash collected being lost/displaced/stolen increases the longer it is in the lockbox/safe versus being promptly deposited.
- **Responsibility for handling cash related duties is concentrated among a small number of employees.** According to the State Accounting Manual, the same employee should not complete the following duties: establish and maintain accounts receivable records, open mail and receive cash or checks, prepare deposits for the bank, or enter receipts into the PeopleSoft system. In addition, it requires that cash collections must be reconciled to totals recorded for cash receipts by someone who has no access to cash. If this is not feasible due to personnel constraints, the reconciliation should be reviewed by someone who has no access to cash. An independent employee must review and approve the daily deposits before making the bank deposit. We noted that there is no separation of cash related duties at many of the markets. Because of the small staff sizes at the markets (excluding the Atlanta Market), it appears that the same employees accept cash payments, issue receipts, record the transaction in the ledger, and prepare the deposits. Having one person responsible for all of these functions can foster an environment that provides opportunity for fraud. Having the cash-related duties spread among several employees aids in mitigating the risk of fraud.

¹⁹ Two markets did not collect cash and do not have offices; checks collected are stored at another market. The remaining four markets had working safes.

²⁰ Atlanta was excluded because they made cash deposits almost every day in fiscal year 2016.

²¹ Two farmers' markets had no cash collections in fiscal year 2016.

GDA does not have written policies and procedures regarding cash management at the farmers' markets. Three of the market managers indicated that they had not received direction from GDA management related to handling cash and followed the procedures that their predecessors had followed.

The ability to take other forms of payment would reduce the amount of cash on hand at the markets and would create more flexibility for customers. The State Accounting Manual instructs that collection mechanisms should be considered in the following order of preference: Automated Clearing House (ACH), wire, credit card collection, lockbox, check or other negotiable instruments.

RECOMMENDATIONS

1. GDA should evaluate and establish cash controls in compliance with SAO policies.
2. GDA should develop standard policies and train staff on proper cash management.
3. GDA should increase monitoring of cash management at the markets and explore ways to modernize its payment collection processes, including the potential to accept electronic payments and/or credit cards.

GDA's Response: According to GDA, "procedures for collecting, safe guarding deposits and managing cash must be a part of our daily routine." GDA indicated that "finance staff will conduct a detailed evaluation of cash practices and procedures at all farmers markets" and "implement processes and procedures to ensure the proper safe guarding of cash." As noted earlier, GDA indicated that, depending on funding, it would "establish a new financial position that is responsible for enforcing leases and managing the accounts receivable process."

GDA should improve its management of payments and past due amounts to comply with state accounting policies.

Currently, GDA does not manage and collect amounts owed by tenants in compliance with state accounting policies. SAO policies direct state agencies to maintain a ledger or record of money that it is owed, manage the amounts owed, and actively collect past due amounts. In addition, state agencies are required to report the amounts owed and have management controls related to accounts receivable. Although past due amounts are reflected in monthly reports generated by each market manager and sent to GDA's central accounting office, GDA's former Chief Financial Officer stated that this information is not reviewed or analyzed by its finance staff. Weaknesses in GDA's process for managing past due amounts are discussed below.

- **GDA does not create customer accounts.** The state accounting manual requires establishing customer accounts with unique identification numbers and preparing bills for amounts owed to the state. During our review, we noted that that GDA does not have customer accounts for lease tenants and does not prepare bills as required by state accounting policy. Generally,

market managers rely on tenants to pay lease amounts without any billing for current or past due amounts.

- **GDA does not track receipts or past due amounts in a subsidiary ledger.** The state accounting manual requires that customer accounts be established and that the activities related to the amounts that are owed to the state be tracked in a subsidiary ledger. According to GDA's former CFO, it neither creates customer accounts, as previously noted, or maintains a ledger where past due amounts could be tracked. This also limits GDA's ability to generate reports related to past due amounts or establish aging schedules.
- **GDA does not actively pursue past due amounts owed.** The state accounting manual requires that state agencies actively collect amounts due the state, including using debt collection methods that are available, as long as the cost of collecting the debt does not exceed the debt. A GDA official indicated that market managers—who at the time of our review had primary responsibility for tracking past due amounts—"don't chase" amounts past due and have never turned any debts over to collections agencies.
- **Internal controls not established.** Per the state accounting manual, the individual in charge of accepting payments should not be responsible for recording the amounts due in the ledger. This creates a situation that could lead to fraud or abuse, especially because there is no management oversight or review of collections and amounts unpaid.

RECOMMENDATIONS

1. GDA should 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. GDA should consider centralizing the billing, payment collection, and tracking of amounts owed.
3. GDA should establish collections procedures and should determine if the use of collections agencies is appropriate.
4. GDA should consider having lease payments sent to its finance office to centralize the payment process and uniformly administer it.

GDA's Response: GDA stated that "to ensure compliance with state accounting policies" it would "establish a new financial position that is responsible for enforcing leases and managing the accounts receivable process," if funding becomes available. In addition, GDA's finance staff "will evaluate the need for a standalone accounting system to manage market financials."

GDA should develop performance indicators to better monitor markets' operations.

GDA does not collect and analyze information on inputs, outputs, activities, and outcomes needed to monitor and demonstrate a large-scale business enterprise like the state's nine farmers' markets is operating efficiently and effectively. Performance indicators allow management to monitor systemically the business activities and performance of each market and compare across markets. In addition, the ability to track indicators over time allows management to identify problems and help support decisions about the future direction of markets.

Although there is limited data on the farmers' markets, reviews of GDA documents identified the following pieces of information that could serve as a starting point for developing useful performance indicators for the markets:

- **Goals.** GDA documents we reviewed indicate the goals of the farmers' markets are to: provide fresh produce and agricultural products, ensure high quality and safe products, generate revenue and create jobs. However, GDA has not established measurable objectives or performance indicators for evaluating the extent to which these goals are being met.
- **Program Performance Measures.** GDA annually reports on two performance indicators to the Governor's Office of Planning and Budget as part of the budgetary process (see Exhibit II). The first measure related to the percentage of space that is leased is a valid measure; however, it is currently incomplete as it reflects only leased warehouse and cooler space, but not shed space on the markets. As discussed previously, shed space has low utilization across the markets. The second measure measures activity at the Atlanta Market; similar information is not currently collected and reported for the remaining markets.

Exhibit 11 State Farmers' Markets' Performance Measures¹

Performance Measures	2014 Actual	2015 Actual	2016 Actual
Percentage of total Farmers' Market space leased to vendors ²	92%	92%	100% ³
Number of farmers, retailers, and wholesalers utilizing the Atlanta State Farmers' Market	28,283	35,329	36,565
¹ The audit team was not able to verify the accuracy of the information that was reported for the performance measures. ² Includes enclosed spaces such as warehouse and cooler space at the various farmers' markets; does not include open shed space or daily rental space ³ Marketing Division personnel indicated that this number was rounded up in the Fiscal Year 2018 Performance Measures Report. Source: Fiscal Year 2018 Performance Measures Report			

Our review of other state-run farmers' markets in nearby states (including Florida and North Carolina) identified several indicators that may be useful for monitoring the activities and performance of farmers' markets. Likewise, a review of property

management literature identified additional indicators that would be useful in monitoring specific business functions across the markets. Exhibit 12 contains possible indicators for consideration. It should be noted that Florida's Division of Marketing receives data to support its performance measures from the tenants who lease facilities on state farmers' markets. Lease agreements for tenants subject to the reporting requirement²² contain specific language indicating what must be reported, when the report is due, and to whom it should be provided.

Exhibit 12
Examples of Data Useful for Monitoring Performance of State Farmers' Markets

Market Operations	Maintenance and Repair
Net Income (Loss) Revenue projections Commodity sales generated by tenants Number of visitors	Total maintenance and repair costs - total and by category Cost per work order - total and by category Costs as a percentage of replacement costs Backlog of deferred maintenance Equipment failures Number of work orders completed on time for preventive and routine work
Property Management	Impact
Number of square feet maintained Number of leased square feet Occupancy rates Average rent per occupant Tenant turnover Tenant satisfaction	Business output/sales volume Value added (gross regional product) Wages Jobs
Source: Other states and industry research	

RECOMMENDATIONS

1. GDA should 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.
2. GDA should require 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.
3. GDA should regularly monitor and evaluate the markets' performance and use this information to guide decisions pertaining to the markets, including funding decisions.

²² Certain leaseholders are exempt because they either sell agricultural products at the retail level or do not sell products. In addition, truck brokers, who lease space on markets for the convenience of close contact with their clients but who do not make direct sales of products, and administrative leaseholders (i.e., food inspectors) are also exempt from the requirement.

GDA's Response: According to GDA, "performance indicators are an important asset in [an] organization's ability to set goals and develop an effective strategic plan." GDA indicated that it "will use data from [the earlier] proposed UGA performance evaluation and analysis to produce relevant measures that drive effective and efficient performance." In addition, GDA stated that it "will incorporate a standardized informational profile to be completed by each tenant, as part of the lease agreement, aimed at generating useful data on economic impact (i.e. number of employees, commodities, etc)."

GDA should better utilize existing resources to promote farmers' markets.

Farmers' Showcases are an initiative of Georgia Grown® aimed at increasing the retail experience by bringing together farmers, producers, and consumers to an area. GDA reports that it has hosted 16 of these events at four of the nine State Farmers' Markets since 2012.

According to GDA management and staff, GDA periodically hosts events, such as the Georgia Grown® Farmers' Showcase, that are intended to generate sustained interest in the markets by the local community. Beyond that, however, our review found little evidence that GDA actively promotes the markets. Our review of GDA's website found that webpages for individual markets are outdated. We also reviewed several back issues of GDA's *The Market Bulletin* publication and found the markets have not been prominently featured. And, although the markets are supposed to serve as outlets for locally grown products, most are not highlighted in GDA's Georgia Grown® marketing campaign. While GDA may not have resources to support a separate promotional campaign for State Farmers' Markets, it could better utilize existing resources to generate interest in all the markets by prospective tenants and the public.

As discussed below, our review of GDA's website, *The Market Bulletin*, and Georgia Grown® materials found that the markets are not prominently featured.

- **GDA's Website.** Our review of webpages for the individual markets found that they contained outdated and inconsistent information across the markets. In addition, information that would be helpful to prospective tenants and customers was missing, such as hours of operation, list of current businesses (particularly retail establishments) operating on the market, and space availability/leasing information. For each of its farmers' markets, North Carolina's Department of Agriculture and Consumer Services posts to its website information such as a market layout map; direction map; space availability chart and leasing information; hours of operation, and links to tenant websites and other related resources.
- **Market Bulletin.** The Market Bulletin is a biweekly publication of GDA that provides free advertising to farmers and consumers, as well as provides information about agriculture and the department. Our search of previous issues of the publication from October 2016 to October 2017 found that at least one of the nine State Farmer' Markets were mentioned in 14 of 26 issues, but none were listed in the remaining 12 issues. Across the 14 issues, the markets were either 1) included as part of a commodity price report provided by the U.S. Department of Agriculture; 2) advertising available warehouse space; or 3) listed in a calendar of events. The Atlanta Market was mentioned in two articles, but none of the markets were featured in an issue or the focus of an article.

- **Georgia Grown.** Georgia Grown® is GDA's advertising and promotion program intended to market locally grown produce and other agricultural products. With the exception of the farmers' showcases (which have taken place at four of the markets), our review found that the campaign does not highlight State Farmers' Markets, where one would expect locally grown produce and other items to be sold. Our search of the Georgia Grown® website, for example, found that four of the nine farmers' markets were listed (Atlanta, Augusta, Macon, Savannah). The remaining five markets could not be located on the website. Our search of the Georgia Grown® magazine identified three articles highlighting the Atlanta Market, with the latest article published in 2014.

Recognizing the need for additional marketing, individual market managers have taken it upon themselves to promote their markets. One market manager we spoke with indicated that he takes Georgia grown blueberries or peaches to the state's welcome centers to promote agriculture to visitors. Other market managers (Atlanta, Macon) have established profiles for their markets on social media sites, such as FaceBook.

RECOMMENDATIONS

1. GDA should update information on its website to include more recent and useful information related to tenants and activities on the farmers' markets.
2. GDA should consider using the Market Bulletin to highlight State Farmers' Markets.
3. GDA should consider ways to promote State Farmers' Markets in its ongoing efforts to promote locally grown produce and other items through Georgia Grown®.

GDA's Response: GDA indicated that "as part of the study that we will seek to have UGA conduct, we will look to redefine the role and expected utilization of the markets." According to GDA, "the focus of markets in the future will be more towards commercial and industrial activities instead of a consumer-focused operation. As such, our promotion efforts will need to adjust to address that change in direction."

GDA should take additional steps to identify and mitigate potential conflicts of interest.

Although GDA has established policies addressing conflicts of interest, it has not established adequate procedures to identify and mitigate potential conflicts. Our review found that any required disclosure forms are completed at the time of hire, but GDA does not require staff to regularly update the forms to ensure any new potential conflicts are disclosed. In addition, the applicability of one policy is unclear.

For farmers' markets, conflicts could occur in the form of market maintenance staff performing after hours work for tenants (which is prohibited) or maintenance employees overseeing/inspecting the work of contractors with whom they have had ties. However, our review identified gaps in GDA's processes that limit its ability to identify these and other types of conflicts.

- **Code of Conduct.** According to GDA Policy Number 2.1, section IV.E.15, “personal activities or associations of an employee that knowingly create an apparent or real conflict of interest with the conduct of official duties are prohibited” and “a conflict of interest arises when an employee’s private interest, whether of a financial nature or otherwise, conflicts with the employees impartial conduct of official duties and responsibilities.” However, it is not clear if employees are asked to acknowledge receiving and reviewing the Code of Conduct to ensure they are aware of what constitutes a violation of the code.
- **Outside or Dual Employment Policy.** This policy requires employees to obtain approval prior to accepting outside employment or conducting a private business. According to GDA management, employees complete a permission form at the time of hire. However, GDA does not require regular updates to this information, such as through annual attestations or disclosure statements, to identify changes in an employee’s situation. GDA relies on employees to initiate any subsequent disclosures.
- **Conducting Business with Vendors.** According to the policy, “personnel in a position of trust are prohibited from having business dealings with companies affiliated with or acting as vendors of the Department without disclosing that it is a personal transaction.” However, our discussions with GDA management and staff revealed that they were unsure of the policy’s meaning, the circumstances it would apply to, and how to ensure compliance. At the time of our review, an acknowledgement or disclosure process related to this policy had not been established.

In addition, our review of state law identified a provision related to conflicts of interest, which is not currently addressed in GDA’s conflict of interest policies. O.C.G.A., § 2-10-54 states that “all full-time employees of the department whose regular work duties involve the operation of any farmers’ market are prohibited from engaging in business as a “dealer in agricultural products...during their term of employment.”²³ GDA management indicated that they do not have a policy or acknowledgement form related to this provision.

RECOMMENDATIONS

1. GDA should develop additional procedures to strengthen its disclosure provisions and identify potential conflicts that arise over the course of employment. For example, GDA could require employees to sign annual disclosure forms.
2. GDA should clarify its policy on conducting business with GDA’s vendors.
3. GDA should 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

²³ O.C.G.A. 2-10-54 and O.C.G.A. 2-9-1 (2) “Dealer in agricultural products” means any person, association, itinerant dealer, partnership, or corporation engaged in the business of buying, receiving, selling, exchanging, negotiating, or soliciting the sale, resale, exchange, or transfer of any agricultural products purchased from the producer or his or her agent or representative or received on consignment from the producer or his or her agent or representative or received to be handled on a net return basis from the producer. The term “dealer in agricultural products” also includes any person buying, selling, processing, or shelling pecan nuts, including any and every kind and variety of pecan nuts.

provisions. If necessary, GDA should seek the guidance of legal counsel to help interpret the provision and determine what is necessary.

GDA's Response: GDA stated that it “will conduct a thorough review of existing policies and implement improvements and change as deemed appropriate.”

Appendix A: Table of Recommendations

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 nine markets. (p. 10)

1. GDA should evaluate the future direction of each of the farmers' markets outside of Atlanta. This may result in the decision to close some markets, increase investment in others, or commission a more formal feasibility study to determine how State Farmers' Markets can be improved or modernized to meet the needs of the agricultural community and the cost to do so. Consideration should also be given to alternate models for continuing to support agriculture in each community where there is a more limited need for a market, even if only on a seasonal basis
2. GDA should begin to collect and evaluate information for each of the markets to assist with an evaluation of their continued need and to better manage and monitor their activities and performance.
3. If the state chooses to continue to support some or all of the farmers' markets, GDA should take steps to address the issues identified in the remainder of the report to ensure proper accountability and stewardship of a large enterprise with nine locations (including the Atlanta Market), each with various revenue centers

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. 14)

4. Working with the General Assembly, GDA should determine if assessments to determine the cost of repairs, replacement, and preventive maintenance at each of the markets would be useful in decision-making about the funding of the markets or the future direction of each market.
5. For the Atlanta Market and any markets that will continue to operate, GDA should develop an annual maintenance and repair plan and budget. The plan should include preventive maintenance to reduce repair costs and ensure a longer life of market assets.

GDA's agreement with the Atlanta Produce Dealers Association and lease rate setting practices may not be in compliance with the state's gratuities clause. (p. 18)

6. GDA should re-evaluate the APDA contract and determine desired outcomes of the agreement. If GDA determines the agreement should be continued, it should:
 - a. seek advice from the Office of the Attorney General on what provisions should be included in the agreement and revise the agreement. At a minimum, the agreement should be modified to remove outdated deliverables (e.g., trolley services) and establish reporting requirements, such as marketing activities, visitation rates, costs to operate facilities, and fees and revenues collected.
 - b. document market rent of spaces used by APDA on the Atlanta Market per the agreement, as well as document any operations and maintenance costs covered by GDA.
 - c. monitor the agreement (through newly established reporting requirements) to ensure 1) the state is receiving substantial/equivalent benefits from APDA and 2) the provisions of the agreement are adhered to.
 - i. If APDA is unable to provide the requested information necessary to demonstrate that the state is receiving equivalent services for the value of the market spaces, the agreement should be terminated.
7. GDA should determine the market rent for spaces at each of the markets. In addition, GDA should ensure it documents the rationale for any discounts applied to market rents.

GDA should review its lease rate setting practices to ensure the practices are uniform across markets and that the rates in effect are adequate. (p. 21)

8. GDA should consider utilizing local appraisers and/or contacting local private businesses with similar spaces to determine and periodically update market rents for spaces at each of the markets. GDA could consult with the State Properties Commission, which hires qualified professionals to conduct appraisals of spaces to set appropriate rates for leases with private businesses and individuals. Once market rents have been determined, GDA should maintain a fee schedule by market and by type of facility.
9. GDA should document any deviations from fee schedules and provide an explanation for the deviation. To ensure compliance with the state's gratuities clause, discounted lease rates should be accompanied by an assessment of the substantial benefit flowing to the state in return.
10. GDA should establish policies covering all aspects of the lease-rate setting process, including how and to what extent lease rates are to be adjusted over time and how construction costs, utilities, and other additional costs should be handled. In addition, GDA should consider establishing a formal methodology for setting utility fees for those spaces not separately metered.
GDA's lease management practices expose GDA to unnecessary risks. (p. 24)
11. GDA should consider centrally managing its leasing function and assign one or more individuals primary responsibility for lease administration. This would ensure a complete inventory of current lease agreements is properly maintained and all leases are properly executed. In addition, individuals with primary responsibility for leases could consult with legal staff prior to executing leases to ensure lease terms are consistent with GDA policies.
12. GDA should establish and document policies and procedures related to lease administration. Policies should outline specific responsibilities of GDA staff with an active role in lease administration and tenants on the markets. Policies could also address such aspects as lease terms (and other provisions) for tenants with 10-year payback arrangements and required liability coverages. GDA should consult with the State Properties Commission in creating an appropriate lease management process.
13. GDA should develop a standardized lease agreement and ensure it includes important provisions, including those related to security deposits and specialized equipment, as applicable. GDA's policies related to lease management should require the use of the standard agreement.
14. GDA should establish controls to ensure all lease terms are properly enforced.
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. 27)
15. GDA should evaluate and establish cash controls in compliance with SAO policies.
16. GDA should develop standard policies and train staff on proper cash management.
17. GDA should increase monitoring of cash management at the markets and explore ways to modernize its payment collection processes, including the potential to accept electronic payments and/or credit cards.
GDA should improve its management of payments and past due amounts to comply with state accounting policies. (p. 29)
18. GDA should 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.
19. GDA should consider centralizing the billing, payment collection, and tracking of amounts owed.
20. GDA should establish collections procedures and should determine if the use of collections agencies is appropriate.

21. GDA should consider having lease payments sent to its finance office to centralize the payment process and uniformly administer it.
GDA should develop performance indicators to better monitor markets' operations. (p. 31)
22. GDA should 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 outcomes, as well as output and efficiency measures. They should also be tracked over time so that trends can be evaluated and benchmarks established.
23. GDA should 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 GDA.
24. GDA should regularly monitor and evaluate the markets' performance and use this information to guide decisions pertaining to the markets, including funding decisions.
GDA should better utilize existing resources to promote farmers' markets. (p. 33)
25. GDA should update information on its website to include more recent and useful information related to tenants and activities on the farmers' markets.
26. GDA should consider using the Market Bulletin to highlight State Farmers' Markets.
27. GDA should consider ways to promote State Farmers' Markets in its ongoing efforts to promote locally grown produce and other items through Georgia Grown®.
GDA should take additional steps to identify and mitigate potential conflicts of interest. (p. 34)
28. GDA should develop additional procedures to strengthen its disclosure provisions and identify potential conflicts that arise over the course of employment. For example, GDA could require employees to sign annual disclosure forms.
29. GDA should clarify its policy on conducting business with GDA's vendors.
30. GDA should 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. If necessary, GDA should seek the guidance of legal counsel to help interpret the provision and determine what is necessary.

Appendix B: Objectives, Scope, and Methodology

Objectives

This report examines the State Farmers' Markets within the Georgia Department of Agriculture. Specifically, our audit set out to determine the following:

1. The extent to which farmers' markets are meeting the needs of Georgia's agricultural industry and how the purpose and intent of farmers' markets has evolved,
2. The extent to which farmers' markets are operating in a cost-efficient manner, and
3. The extent to which controls over farmers' markets payment collections, tenants, and employee conflicts of interest are properly designed.

Scope

This audit generally covered activity related to State Farmers' Markets that occurred during fiscal years 2015 and 2016, with consideration of earlier or later periods when relevant. Information used in this report was obtained by reviewing relevant laws, rules, and regulations, interviewing agency officials and staff from the Department of Agriculture, Georgia Building Authority, Georgia State Properties Commission, and the Georgia Department of Law, analyzing data and financial reports by market, conducting site visits to the nine state farmers' markets, interviewing representatives of other states' farmers' markets programs (Florida and North Carolina) and conducting a survey of tenants and users/potential users of the farmers' markets.

Government auditing standards require that we also report the scope of our work on internal control that is significant within the context of the audit objectives. We reviewed internal controls as part of our work on Objectives 2 and 3. Specific information related to the scope of our internal control work is described by objective in the methodology section below.

We obtained expenditure information from PeopleSoft/TeamWorks and revenue information from the monthly reports prepared by the individual markets and concluded the data was sufficiently reliable for the purposes of our review.

Methodology

To determine the extent to which farmers' markets are meeting the needs of Georgia's agricultural industry and how the purpose and intent of farmers' markets has evolved, we conducted interviews, surveys, and reviews of state law. We interviewed representatives of the agriculture industry (the Georgia Farm Bureau, Fruit and Vegetable Association, and the Agribusiness Council) to ask about the change in agriculture and how the farmers' markets meet the needs of the agriculture industry. We also interviewed market managers and other staff to determine if the markets were meeting the needs of the agricultural industry. We reviewed planning efforts conducted by State Farmers' Market personnel intended to improve and modernize the markets. To identify awareness and perceptions of State Farmers' Markets, usefulness of the markets, and areas for improvement, we conducted a survey of 264 people which included tenants, members of the Georgia Watermelon Association, and members of the Vegetable Growers Association. We received 16 responses, which is not a large enough response rate to allow the results to be used to

draw conclusions. We reviewed how state law related to the farmers' markets has changed over time to determine how the purpose and intent has evolved since the markets were established in 1935. We reviewed the goals and performance measures for the farmers' markets to determine if they were reasonable and to determine if the markets were meeting the established goals. We reviewed available data to determine the extent to which the farmers' markets were utilized. We also contacted other states (Florida and North Carolina) to get comparison information on their farmers' markets' programs.

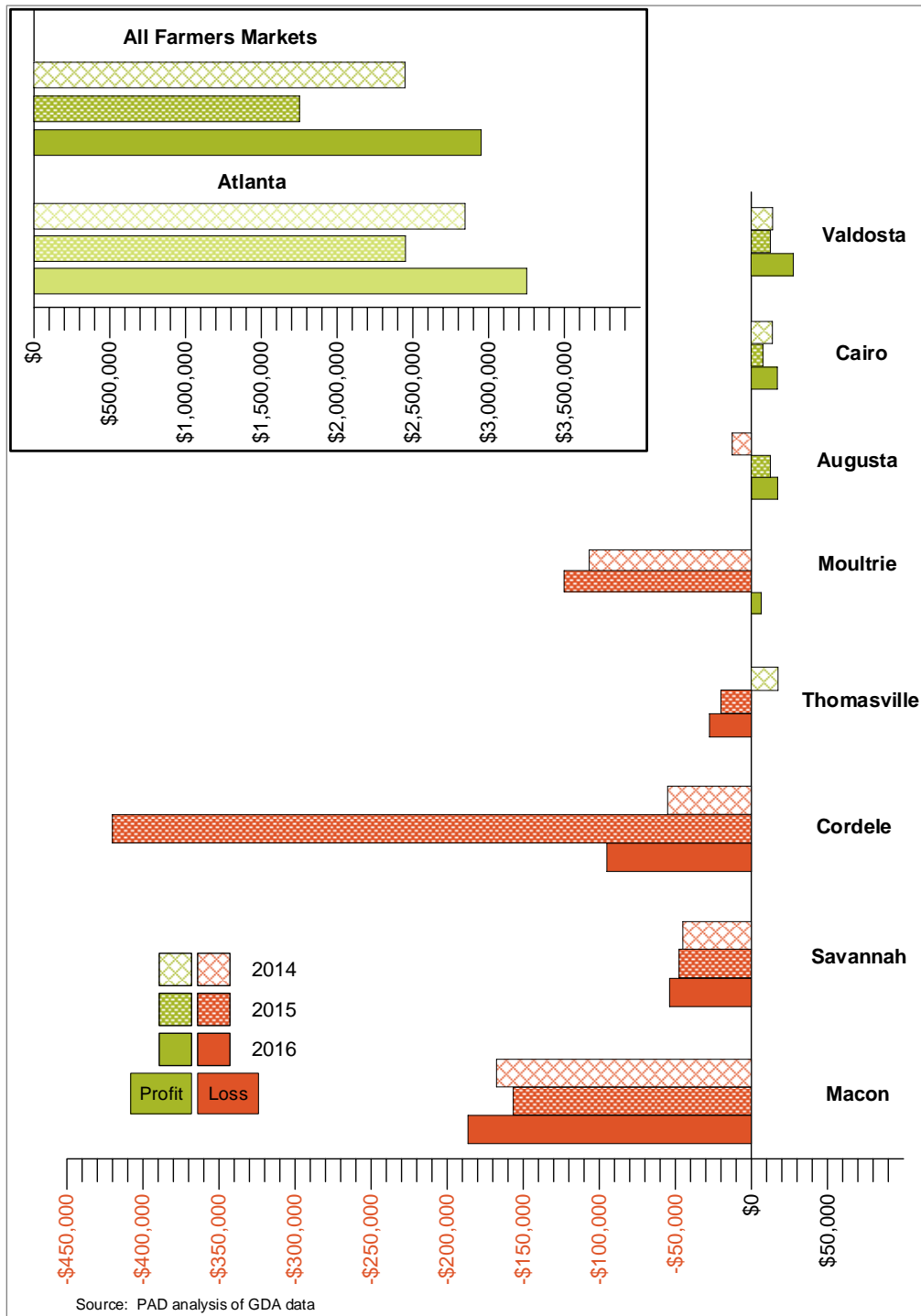
To obtain information on the extent to which farmers' markets are operating in a cost-efficient manner, the audit team visited all of the state farmers' markets to get an overview of the market operations and condition. During site visits, we interviewed the market managers and observed market operations. We reviewed revenue reports from the markets and expenditure information from TeamWorks to determine whether the markets generated sufficient revenue to cover operating costs. We also requested that the Georgia State Finance and Investment Commission (GSFIC) evaluate the condition of three farmers' markets (Cordele, Moultrie, and Thomasville) to identify maintenance needs and costs to make the necessary repairs. In addition, we talked to representatives from the Georgia Building Authority and the State Properties Commission about maintenance and management of properties and facilities for comparison information. In addition, we reviewed how the various rates (lease, gate fees, scale charges, etc.) were set and how often the rates are reviewed to determine if the farmers' markets are maximizing revenue.

To determine the extent to which controls over farmers' markets payment collections, tenants, and employee conflicts of interest are properly designed, we reviewed farmers' markets leases to see that all leases could be located, that they were current, fully executed, and were signed before the lease term began. In addition, we looked at the various terms and clauses that were included in the leases to see if the state was adequately protected. This included liability insurance requirements, security deposits, listing equipment in the spaces, etc. We compared the cash handling and accounts receivable practices we observed at the markets to the requirements in the State Accounting Manual. We interviewed a representative of the Atlanta Produce Dealers' Association (APDA) about the agreement between the APDA and the Atlanta State Farmers' Market. We also reviewed state law and the constitution for information related to the gratuities clause. We consulted with representatives of the Department of Law to get their feedback on the APDA agreement. We also looked at how lease rates are set by the Department of Agriculture and discussed with the Department of Law the best practices for setting lease rates to ensure that it is in compliance with the gratuities clause. Finally, we reviewed conflict of interest policies and requirements in the law to determine if the processes in place were adequate.

Deficiencies in internal control are discussed in findings on pages 18, 21, 24, 27, 29, and 34 of this report.

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 findings and conclusions based on our audit objectives.

Appendix C: State Farmers' Markets Net Revenues/Losses, Fiscal Years 2014-2016



Appendix D: Summary of Cost Estimates Provided by the Georgia State Investment and Finance Commission

In June 2016, the Georgia State Finance and Investment Commission's (GSFIC) Design Review Group completed Visual Assessments for three State Farmers' Markets at the audit team's request. The markets reviewed by GSFIC were selected based on their proximity to one another and market features (e.g., seasonal vs year round activities). The GSFIC team assessed each enclosed building at the markets and evaluated each of the following building components (as applicable): structure, elevation, roof, mechanical system, parking, site, interior, plumbing, and electrical and fire systems. GSFIC estimated costs to repair building components and assigned each building a numerical value to reflect the relative importance to the total estimated costs of repairs. The numerical score is based on the following scale: Excellent (86-100); Good (71-85); Fair (41-70); and Poor (less than 40).

Table D-1: Estimated Repair Costs Across Three Markets between \$3.1 Million and \$5.2 Million

Identified Repair Needs	Cordele	Moultrie	Thomasville	Total
ADA compliance	\$40,000	\$40,000	\$50,000	\$130,000
Clean and repaint	\$15,000	\$25,000	\$20,000	\$60,000
Electrical	\$1,500,000	\$79,000	\$132,000	\$1,711,000
Exterior Repairs	\$110,000	\$50,000	\$95,000	\$255,000
Fire Alarm – new fire alarm system	\$210,000	\$210,000	\$210,000	\$630,000
Interior	\$30,000	\$30,000	\$65,000	\$125,000
Plumbing	\$45,000	\$0	\$0	\$45,000
Roof	\$10,000	\$250,000	\$0	\$260,000
Site	\$85,000	\$0	\$50,000	\$135,000
Structural Repairs	\$0	\$80,000	\$60,000	\$140,000
Total Construction Cost	\$2,045,000	\$764,000	\$682,000	\$3,491,000
Contingency + Fee ¹	409,000	152,800	136,400	698,200
Architectural Fees (at 10%)	245,400	91,680	81,840	418,920
Owner Contingency (at 10%)	245,400	91,680	81,840	418,920
Market Conditions & Unforeseen (at 5%)	122,700	45,840	40,920	209,460
Total Construction and Contingency Cost	\$3,067,500	\$1,146,000	\$1,023,000	\$5,236,500
¹ Contingency + Fee is 20% of total construction cost.				
Source: GSFIC Visual Assessment Reports				

Table D-2: Cordele Market

Building Element	Rating	Weight	Total
Structure:	80	100	Good
Elevation:	85	100	Good
Roof:	80	100	Good
Mechanical Systems:	-	-	N/A
Site/Civil:	80	100	Good
Interior:	78	100	Fair to good
Plumbing:	-	-	N/A
Electrical (including FA):	41	100	Poor to Fair
Fire Protection System:	-	-	N/A
Voice/Data	-	-	-
Security/CCTV	-	-	-
Total	74%	100	Good

Source: GSFIC Visual Assessment Reports

Table D-3: Moultrie Market

Building Element	Rating	Weight	Total
Structure:	85	100	Good
Elevation:	85	100	Good
Roof:	85	100	Good
Mechanical Systems:	-	-	N/A
Site:	80	100	Fair to good
Interior:	80	100	Fair to good
Plumbing:	85	100	Good
Electrical (including FA):	80	100	Fair to good
Fire Protection System:	-	-	-
Voice/Data	-	-	-
Security/CCTV	-	-	-
Total	83%	100	Good

Source: GSFIC Visual Assessment Reports

Table D-4: Thomasville Market

Building Element	Rating	Weight	Total
Structure:	75	100	Fair to Good
Elevation:	80	100	Good
Roof:	80	100	Good
Mechanical Systems:	-	-	N/A
Site/Civil:	85	100	Good
Interior:	75	100	Fair to good
Plumbing:	60	100	Fair
Electrical (including FA):	41	100	Poor to Fair
Fire Protection System:	-	-	N/A
Voice/Data	-	-	-
Security/CCTV	-	-	-
Total	71%	100	Good

Source: GSFIC Visual Assessment Reports

The Performance Audit Division was established in 1971 to conduct in-depth reviews of state-funded programs. Our reviews determine if programs are meeting goals and objectives; measure program results and effectiveness; identify alternate methods to meet goals; evaluate efficiency of resource allocation; assess compliance with laws and regulations; and provide credible management information to decision makers. For more information, contact us at (404)656-2180 or visit our website at www.audits.ga.gov.