

For: State and County Offices

Payment Limitations - Majority Stockholders of Corporations

Approved by: Acting Deputy Administrator, Farm Programs



1 Overview

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Background

The majority stockholder, or member of a corporation or similar entity and the entity are to be considered one "person" for payment limitation purposes as required by current regulations at 7 CFR §1400.101 and Agency procedure in 1-PL, paragraph 313. The required "person" determination is to be made by COC or reviewing authority and documented on CCC-503A as instructed in 1-PL, paragraphs 393 and 394. This determination shall also be recorded in the automated subsidiary files for nationwide payment limitation control as specified in 2-PL, paragraphs 303 through 331.

Note: There are no exceptions authorized.

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OIG Audit

The Office of the Inspector General (OIG) recently completed an audit of the automated subsidiary file system for 1998 and 1999. The purpose of the audit was to determine whether program payments to corporations with majority stockholders were sufficiently controlled to prevent payments in excess of the applicable payment limitations.

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Purpose

This notice provides the results of the OIG audit and the required follow-up actions by State and County Offices.

<p>Disposal Date</p> <p>December 1, 2001</p>	<p>Distribution</p> <p>State Offices; State Offices relay to County Offices</p>
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2 Audit Information

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Objective and Scope

The objective of the audit determines whether controls were sufficient to prevent payments to majority stockholders from exceeding established limits. The audit covered 68,425 corporations nationwide, which for 1998 and 1999 had majority stockholders and received payments subject to limitation.

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Audit Findings

As shown in Exhibit 1, the audit identified 24,946 corporations that in 1998 and 1999, were not combined in the automated system to be 1 "person" with the majority stockholder or member. Exhibit 2 includes those counties in which at least 20 majority stockholders were not correctly determined 1 "person" with the entity for 1998 and 1999.

C

Errors Noted

Majority stockholders and their respective corporations were not entered into the automated system as a combined producer. This error condition occurred because COC either failed to correctly determine that the entity and the majority stockholder are 1 "person" for program payment limitation purposes or County Office personnel did not correctly enter the person determination data in the automated system.

D

Audit Conclusions

The audit findings disclosed that 36 percent of the majority stockholders of corporations nationwide had not been properly combined in the automated files. It was concluded that controls over program payments to corporations with majority stockholders were inadequate. Additionally, there were no assurances that payments would be correctly limited to corporations and similar entities and their majority stockholders or members.

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3 Corrective Actions

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County Office Action

COC's and County Office personnel are instructed to use Exhibits 1 and 2 for assistance and complete the following:

- review payment eligibility and payment limitation control files for corporations, limited liability partnerships, limited liability companies, and similar entities for the 1999 **and subsequent years**
 - make the correct "person" determinations and provide the affected producers written notice of the determinations according to applicable procedure in 1-PL
 - correctly enter the "person" determinations into the automated system according to applicable procedure in 2-PL.
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State Office Action

State Offices shall:

- ensure that all County Offices follow provisions of this notice and complete the necessary actions by August 1, 2001
 - verify completion and report by FAX to PECD, Compliance Branch, by COB August 10, 2001
 - send FAX to Jim Baxa at 202-720-4941.
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Number of Majority Stockholders Not Combined as 1 "Person" With Their Corporations

The following list is the number of majority stockholders not combined.

<u>State</u>	<u>1998</u>	<u>1999</u>	<u>Total</u>
Alabama	154	161	
Alaska	2	2	
Arizona	100	102	
Arkansas	274	285	
California	327	334	
Colorado	242	264	
Connecticut	16	19	
Delaware	46	49	
Florida	491	465	
Georgia	490	516	
Hawaii	17	20	
Idaho	251	274	
Illinois	481	536	
Indiana	824	848	
Iowa	894	944	
Kansas	428	464	
Kentucky	215	231	
Louisiana	356	372	
Maine	32	35	
Maryland	127	136	
Massachusetts	74	77	
Michigan	224	236	
Minnesota	463	468	
Mississippi	360	376	
Missouri	535	564	
Montana	427	464	
Nebraska	367	381	
Nevada	29	31	
New Hampshire	17	17	
New Jersey	51	60	
New Mexico	109	108	
New York	167	172	
North Carolina	347	359	
North Dakota	149	159	
Ohio	408	434	
Oklahoma	166	164	
Oregon	177	187	
Pennsylvania	81	91	
Puerto Rico	28	2	
Rhode Island	3	4	
South Carolina	172	183	
South Dakota	287	301	
Tennessee	83	81	
Texas	609	616	
Utah	75	83	
Vermont	28	29	
Virginia	230	279	
Washington	136	150	
West Virginia	23	27	
Wisconsin	459	473	
Wyoming	135	126	
TOTAL	12,186	12,760	24,946

Counties With at Least 20 Majority Stockholders Not Combined for 1998 or 1999

The following counties with at least 20 majority stockholders.

<u>State</u>	<u>County</u>	<u>1998</u>	<u>1999</u>
Mississippi	Bolivar	68	71
Florida	Polk	66	66
Montana	Liberty	47	48
Iowa	Washington	44	46
Arkansas	Jackson	43	18
Florida	Palm Beach	42	45
Florida	Dade	40	1
Indiana	Knox	39	40
California	Tulare	38	41
Florida	Lake	38	38
Colorado	Weld	37	40
Mississippi	Washington	33	35
Arizona	Maricopa	31	32
Minnesota	Renville	31	29
Nebraska	Burt	30	28
Missouri	Chariton	29	30
Delaware	Sussex	28	31
California	Yolo	28	27
Arizona	Pinal	27	30
Indiana	Madison	27	28
Iowa	Dallas	27	28
Texas	Lamb	27	27
Iowa	Jones	27	26
Wisconsin	Dane	27	26
Massachusetts	Plymouth	26	28
Iowa	Kossuth	26	27
Indiana	White	26	25
Mississippi	Humphreys	26	24
Florida	Highlands	25	28
Arkansas	Lonoke	25	26
Indiana	Montgomery	25	25
Iowa	Grundy	25	25
Iowa	Winnebago	25	25
Louisiana	West Carroll	25	22
Oregon	Marion	24	26
Illinois	Montgomery	24	24
Minnesota	Clay	24	23
Mississippi	Coahoma	23	31
California	Fresno	23	25
Indiana	Kosciusko	23	25
North Carolina	Sampson	23	25
Indiana	Wells	23	23
Florida	Orange	23	22

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Counties With at Least 20 Majority Stockholders Not Combined for 1998 or 1999 (Continued)

The following counties with at least 20 majority stockholders.

<u>State</u>	<u>County</u>	<u>1998</u>	<u>1999</u>
Georgia	Dooly	23	22
Idaho	Twin Falls	22	27
Montana	Fergus	22	24
Georgia	Mitchell	22	23
Indiana	Rush	22	23
Indiana	Shelby	22	23
Iowa	Scott	22	23
Wisconsin	Shawano	22	23
Florida	Hendry	22	22
Iowa	Clinton	22	22
Montana	Chouteau	22	22
North Carolina	Bertie	22	22
Minnesota	West Polk	22	21
Arkansas	Craighead	21	25
Illinois	Sangamon	21	24
Maryland	Queen Anne's	21	24
Ohio	Licking	21	23
Louisiana	Richland	21	22
Iowa	Cerro Gordo	21	21
Louisiana	St. Landry	21	21
Iowa	Cedar	21	20
Montana	Toole	20	23
California	Butte	20	22
California	San Joaquin	20	22
Indiana	Adams	20	21
Indiana	Hamilton	20	21
Iowa	Lee	20	21
Indiana	Wabash	20	20
Louisiana	Assumption	20	20
Wisconsin	Jefferson	20	20
New Mexico	Chaves	20	19
Louisiana	East Carroll	20	18
Arkansas	Mississippi	15	26
Maryland	Talbot	19	21
Indiana	Daviess	19	20
Iowa	Plymouth	19	20
Michigan	Lenawee	19	20
Missouri	St. Charles	19	20
Idaho	Canyon	18	20
Nebraska	Scotts Bluff	18	20
TOTAL		2,159	2,181
