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## Preparing for a TTB Visit

Notice for an Alcohol and Tobacco Tax and Trade Bureau (TTB) audit can strike fear into the hearts of many winery operators. For most though, an audit will be little more than a temporary inconvenience. In the wine world, there are two types of federal audits, a revenue audit and a product integrity audit.

### Revenue Audit

In 2001, the Department of Treasury's TTB created a new [Tax Audit Division \(TAD\)](#) to ensure that the government is collecting its legal share of your hard-earned money. The 10 TAD offices focus on the largest producers and taxpayers and those with a history of non-compliance, although random audits are also conducted.

Non-filing and late filing of tax returns or [Monthly Reports of Wine Premises Operations \(702s\)](#) can increase your risk of being audited by the TAD. Small and medium size wineries will typically receive a call from the Wine Tax Unit at TTB's [National Revenue Center \(NRC\)](#) if there is a problem or error with a tax return. Often those issues can be resolved with a short phone conversation. If the winery operator is not responsive to a call from the NRC or if larger concerns have been uncovered, an extensive revenue audit may be the next step.

Typically, a targeted winery will receive 30 days notice from the TAB prior to the start of a revenue audit. Wineries can expect three to five auditors to spend two to three weeks reviewing up to three years of activity. According to the TTB website ([www.ttb.gov](http://www.ttb.gov)), "A full-scope audit includes looking not only at tax returns and monthly reports but also examining the company for compliance with the appropriate sections of the Code of Federal Regulations. TTB auditors also examine internal controls as they related to the preparation of operation reports and tax returns. A full-scope audit includes examination of many areas of a taxpayer's records, including general ledgers, inventory, and production systems, and automated data processing, as they related to compliance with Federal laws and regulations."

### Product Integrity Investigations

The [TTB's Trade Investigations Division \(TID\)](#) had 80 field supervisors and investigators responsible for overseeing TTB's application, product integrity, consumer complaint, and trade practice investigations.

Product integrity investigations from the TID may be the result of consumer or industry complaints, anonymous tips, or information passed down from other TTB staff at the National Revenue Center. These audits are very rarely random and advance notice is not always given.

The TID's primary goal in a product integrity audit is to ensure that your label claims can be verified through source documents, such as grape delivery tickets,

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weigh tags, alcohol tests, and financial records. They will focus on your available inventory, and like the TAD, the TID investigators may want to see three years worth of records. The length of the audit can depend on many factors including the number of products being reviewed, and problems arise, they may look at more products.

These audits may seem daunting, but there are few easy steps winery managers can take to make the TTB audit process smoother.

### **Conduct Your Own Audit**

First, whether you are being audited or not, you should audit yourself or hire a compliance professional to conduct an internal audit of your records every couple of years. If you catch your own errors first and take steps to remedy those mistakes, you may be able to avoid a visit from TTB or the negotiate relief from administrative penalties resulting from a TTB audit.

Your internal audit should include a thorough review of your inventory reports and tax returns. You should also review your original application for a Federal Basic Permit and any recent amendments to be sure that your winery description is still accurate and that you are not operating outside of your designated bonded space. It is also important to check your bond coverage and increase if it is not adequate.

### **Conduct Multiple Alcohol Tests**

Second, it is also a good idea to conduct more than one alcohol test during the winemaking process and prior to printing a label. If your percent alcohol by volume is near the threshold of 14%, it is a good idea to send your wine to a TTB wine is labeled with the correct alcohol in the correct tax class. If your winery lab test is 14% and a TTB auditors test is higher, you will have to pay the additional principal tax and penalties and interest regardless of earlier test results.

#### Take Physical Inventory Every Month

It is critical to take a physical inventory each month your winery. Even if you are only reporting your inventory TTB quarterly or annually, a monthly count will help ensure that your records are up-to-date and your reports are accurate. A written procedure for taking inventory is important for non-owner-operated wineries and provides for consistency in the event of staff-turnover.

### **Maintain Supporting Documents In Chronological Order**

It is critical to maintain clear and complete supporting documents for all entries on your Monthly Report of Wine Premises Operations (702). Revenue auditors will ask to review all your 702s and tax returns for the audit period and to substantiate all your entries.

It has been my experience that winery managers do a good job with record

retention but need help organizing the information. The simplest way to manage your records is chronologically and all in one place. Most winery staff will file weigh tags separately from bills of lading and tax returns yet another separate file.

If you want to get your TTB audit completed quickly and efficiently, you should create a file for each month of the year. Each file should include a physical inventory and a signed copy of your 702. Every entry on the 702 should have a source document to back up the entry. For example, if you bottled during the month, you should have a federal label approval, and alcohol test, a bottling record showing what you bottled and gallons lost in the bottling process.

If you removed wine from bond, you should have a bill of lading showing where it went. If you paid taxes on that wine, you should have a corresponding tax return and a copy of your check. If you are audited, this filing strategy will allow the TTB personnel to move through your records quickly with little disruption to your business.

### **Communicate With TTB Staff Directly**

TTB holds annual training for wineries in all major wine regions at no charge to you. You can also call TTB staff directly with questions ranging from how to complete a tax return to more technical questions about regulations and the winemaking process.

At the conclusion of any audit or investigation, TTB staff will provide the subject winery with a complete report of their findings. It is important to respond to that report in writing and to address any violations that have been uncovered. A written response describing specific actions you are taking to right any wrongs should be included (such as paying back taxes, interest and penalties). How you plan to avoid future violations should also be part of your response.

Creating standard operation procedures to deal with problem areas is a great step. Another positive response is to commit to on-going regulatory training for all winery personnel, either through TTB seminars or other means.

Following through on those commitments is important for those who serious violations because TTB will return to visit again and again until your operation is fully compliant. Part of the mission of both TTB divisions is to promote voluntary compliance, and your active participation in that process will be considered in determining any punitive actions or exacting of monetary penalties for violations uncovered in an audit or investigations of your winery.

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### **ABOUT COMPLI**

Established in 1997, Compli is the recognized leader in alcoholic beverage compliance services. Over 600 wineries, breweries, distilleries, importers and wholesalers have chosen them for this reason. Compli manages everything from Federal permits with TTB to direct shipper licenses, price posting, product registration and more. Compli offers training and consulting services based on your company needs. They also specialize in large national licensing projects for new businesses and those resulting from mergers and acquisitions. In addition to full service compliance administration, Compli offers the only comprehensive help-yourself software and web-based solutions like *eCompli and Licensing On Demand*.