

2009 TTB Expo Presentation

What to Expect During TTB Investigations and Audits

Presented by

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What to Expect During a TTB Investigation

TID Overview

- Trade Investigations Division (TID)
Organization
- Application Investigation
- Product Integrity Investigation
- Federal Excise Tax Verification Investigation
- Trade Practices Investigation
- Consumer Complaint Investigation

Trade Investigations Division Organization

Director
Robert Angelo

Deputy Director
Stephen Taylor

Northeast
District

Southeast
District

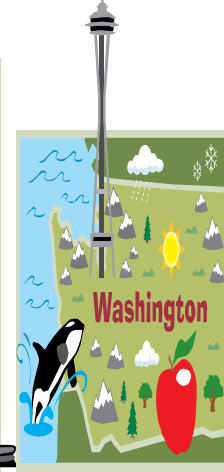
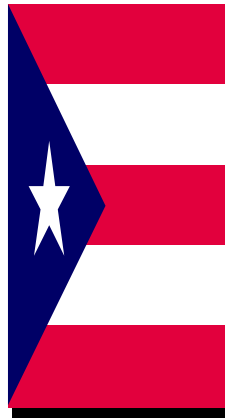
Puerto
Rico

Midwest
District

Mountain
District

Western
Region II

Western
Region I



Trade Investigations Division

TID provides assistance and advice concerning provisions of the Federal Alcohol Administration Act, the Internal Revenue Code, and all related regulations to Bureau employees, other Federal and State agencies, members of the alcohol and tobacco industries, and the general public.

Trade Investigators

- Ensure only qualified applicants are granted permits to engage in production and distribution of alcohol and tobacco;
- Investigate allegations of trade practice violations in marketplace;
- Examine Certificates of Label Approvals (COLAs) to deter unauthorized usage;
- Promote voluntary compliance with laws and regulations enforced by TTB;

Trade Investigators (Continued)

- Prevent misleading labeling and advertising of alcohol beverages;
- Insure public safety by responding to credible information suggesting health-related contamination or adulteration of alcohol product; and
- Conduct investigations of suspected alcohol or tobacco tax evasion.

Application Investigations

Application Investigations

- Determine accuracy of application:
 - Are operations in compliance with stated application?
- Determine if any prohibited persons are associated with the business:
 - Is there hidden ownership?
- Verify source of invested funds:
 - Was funding obtained as stated in filed application?

Application Investigations (Continued)

- Verify payment and adequacy of bond coverage:
 - Operational and Deferral
- Review TTB regulations:
 - Reporting and tax payments
- Explain recordkeeping requirements:
 - Required records to support operational reports and tax returns filed with TTB

Product Integrity Investigations

Product Integrity Investigations

- Verify labels on products to approved COLAs:
 - Labels used on package goods must be approved
- Determine if the Government Warning Statement is present on all alcohol containers:
 - Ensure compliance with regulatory disclosure requirements
- Verify if formulas have been filed and approved for specialty alcohol beverages:
 - Products must be produced in compliance approved formulas

Product Integrity Investigations (Continued)

- Determine if advertising material is misleading
 - e.g., pamphlets, Web sites, etc.
- Obtain samples of alcohol products for testing by TTB Laboratory:
 - Alcohol proof, bottle fill, and products produced under a formula will be verified
- Provide onsite review of recordkeeping requirements:
 - Explain regulations and answer any questions

Federal Excise Tax Verifications

Federal Excise Tax Verification Investigations

- Determine accuracy of Federal excise tax:
 - Taxes not being paid timely
- Determine accuracy of Report of Operations:
 - Monthly reports are not being filed
- Bond has expired (Breweries):
 - Verify bond coverage
- Verify destruction of alcohol

Trade Practices Investigations

Trade Practices Investigations

- Exclusive Outlet:
 - Requires a retailer to purchase from a wholesaler/producer
- Tied-House:
 - Inducing a retailer to purchase through acquiring interest in the retailer, giving loans or items of value, extending credit for an excessive period of time

Trade Practices Investigations (Continued)

- **Commercial Bribery:**
 - Inducing a trade buyer by bribery or by compensating an employee of the trade buyer
- **Consignment Sales:**
 - Offering product for sale on consignment with the privilege of return

Consumer Complaint Investigations

Consumer Complaint Investigations

- Conduct interviews with individuals reporting a health complaint:
 - Obtain and document fact pattern involved in complaint
- Obtain product in question, if available, for testing by TTB Laboratory:
 - To determine risks to the public
- Obtain additional samples of product in question from store where product was purchased:
 - To be used for additional analysis by TTB Laboratory

Consumer Complaint Investigations

(Continued)

- Conduct a follow-up investigation with wholesaler/importer of product, if warranted:
 - Obtain additional facts surrounding complaint

Summary

- TTB conducts:
 - Application investigations
 - Product integrity investigations
 - Federal excise tax verifications
 - Trade practices investigations
 - Consumer complaint investigations

Contact Information

Trade Investigations Division	Phone
Northeast Staff	(215) 580-2002
Southeast Staff	(813) 348-1610
Midwest Staff	(440) 871-6055
Mountain Staff	(651) 290-3905
Western Region II	(206) 553-1700
Western Region I	(916) 930-5600
San Juan, Puerto Rico Staff	(787) 766-5584

What to Expect During a TTB Audit

Scott Rogers, CPA
Tax Audit Division
Greensboro Field Office

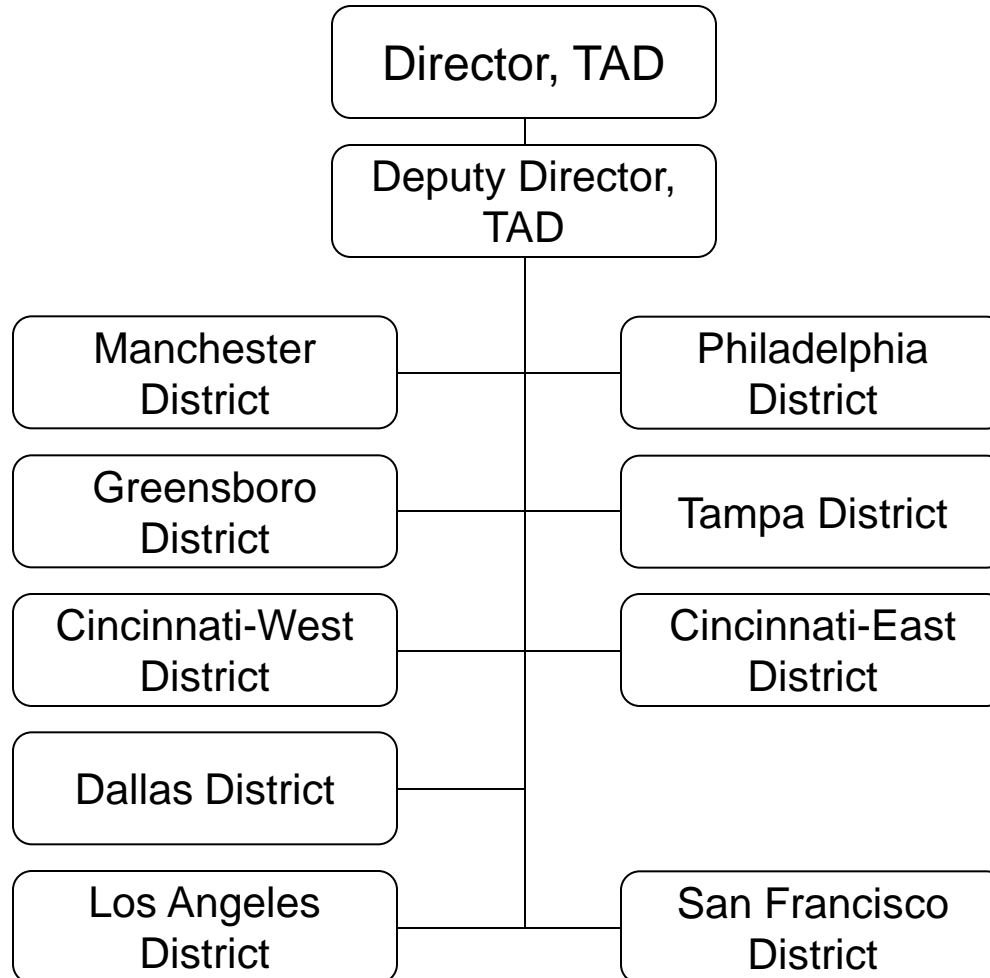
Tax Audit Division Overview

- Verify proper payment of Federal excise taxes
- Ensure compliance with laws and regulations
- Partner with industry members to promote voluntary compliance

Professional Audit Standards

- TTB audits are conducted in accordance with Generally Accepted Government Auditing Standards

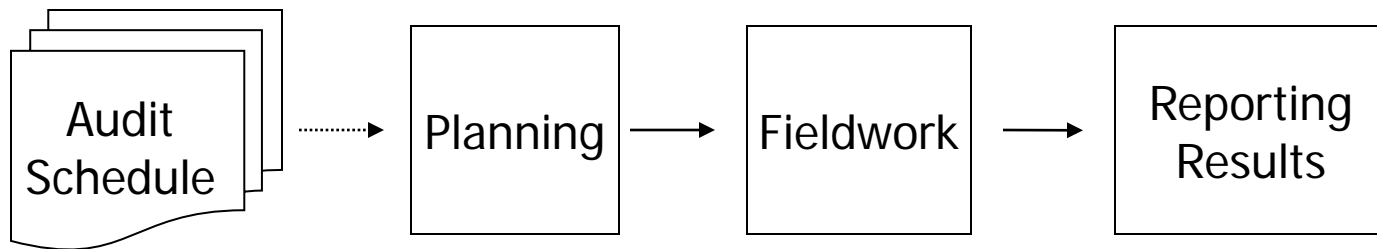
Tax Audit Division Organization



TTB Audit Process

- Planning the audit
- Audit fieldwork
- Reporting audit results

TTB Audit Process (Continued)



Planning the Audit

- Review and analyze information filed with the National Revenue Center
- Review prior audits/investigations
- Develop the audit program
- Notify the industry member
 - Engagement Letter
- Request information from industry member

Information Request List

- Supporting documentation for Federal excise tax returns and operations reports
- System extraction of removals
- Organizational chart and premises map
- Powers of Attorney
- Bonds/Surety files and premium payments

Information Request List (Continued)

- Chart of accounts, general ledger, and financial statements
- Internal and external audit reports
- Inventory instructions and procedures
- Documented internal control procedures
- IT security and disaster recovery plan
- Approved Notice of Registration
- Plant security procedures

Audit Fieldwork

- Opening conference and plant tour
- Interview subject-matter experts and accounting staff
- Evaluate internal controls
- Execute audit program — audit tests
- Identify audit issues

Audit Issues

- Tax adjustments
- Compliance violations
- Internal control weaknesses

Reporting Audit Results

- Audit recommendations/instructions and corrective actions
- Closing meeting
- Management Letter to industry member
- Written response from industry member
- Internal audit report

Summary

- Well-planned: Duration will vary
- Team approach — partnership between TTB and industry member
- No surprises
- Value-added service

Contact Information

Tax Audit Division Field Offices	Phone
Manchester District	(603) 666-7495
Philadelphia District	(215) 580-2007
Greensboro District	(336) 852-9081
Tampa District	(813) 348-1610
Cincinnati Districts (East and West)	(513) 684-2262
Dallas District	(214) 767-3960
San Francisco District	(360) 624-6853
Los Angeles District	(213) 534-7182