



ABC's Farm Winery Audit Program



What we are doing?

- Conducting audits of:
 - Virginia Farm Wineries
- **WHY???**
 - Check and balance on excise tax
 - Check and balance on license requirements (51%)
 - Operational Compliance
 - **Maturing of the Industry**
 - 220.29% increase in Farm Wineries over last 10 years
 - An overall decrease in ABC Special Agents in the same period

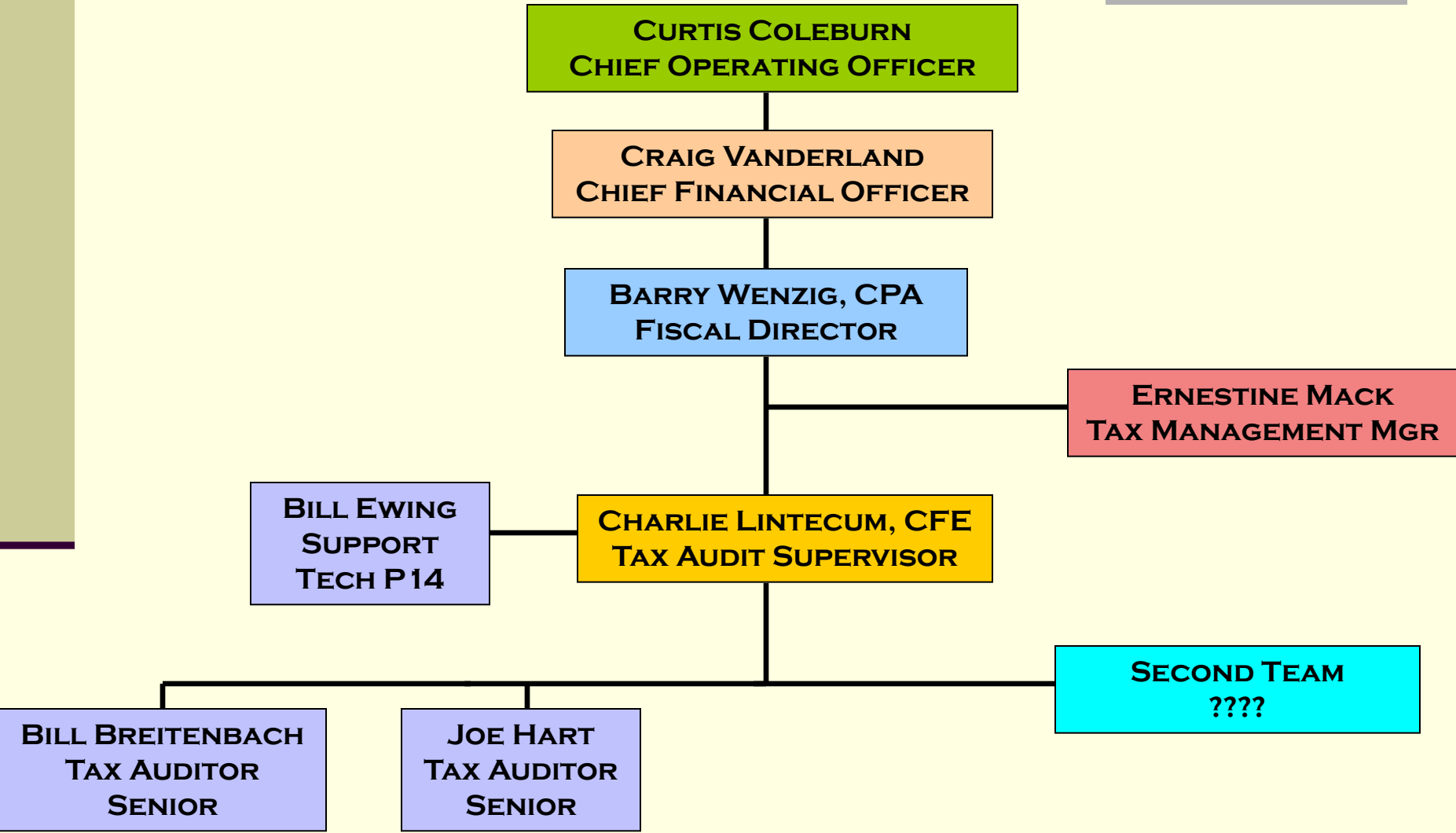


History

- Wine Liter Tax program (excise tax) collect approximately \$30 Million per year
 - Tax Audit team already auditing wine wholesalers including VWDC
 - Liter tax payments FY 2009-2010:
 - 80% of wine wholesalers paid approx. \$425,000.00 combined
 - Virginia Farm wineries paid approx. \$835,000.00 combined
- Due to workload and staffing, Agents time not wisely used for these types of checks
 - Tax Audit team has been working closely with Agents since its inception

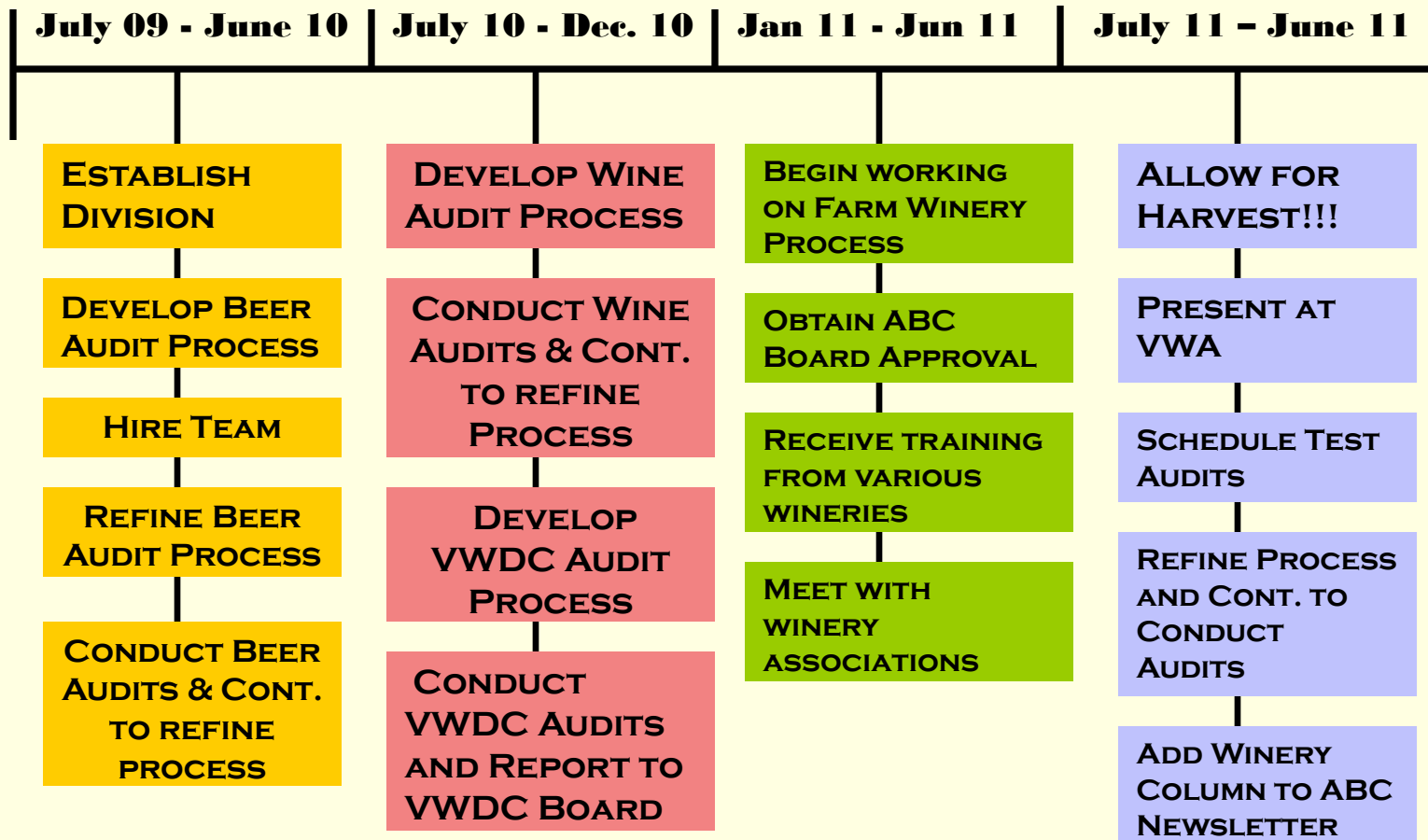


Organizational Structure



When is all of this happening?

TIMELINE OF EVENTS



Approach

- All audits will be announced and random
 - Unless an issue identified by Tax Management or Enforcement
- Audit processes are designed to be flexible to work with each wineries' business model
- This program is not for ABC to yell "GOTCHA!" at every audit.
 - It is a modification in how we maintain compliance due to the maturing of the industry
 - We will work with each winery whenever possible to bring issues into compliance
- Agents will still make inspections and be a regular part of wineries' operations



Audit Process

■ Pre-Audit

- Randomly select wineries via location
- Notify winery and Enforcement of impending audit
- Try to schedule audit to minimally impact winery ops
- Review information submitted to Tax Mgt with appropriate invoices and reports



■ Audit

- Independent inventory count
- Comparison of invoices to tax reports
- Review operations for compliance
- Review license requirements (51%)
- Advise winery of any pertinent issues



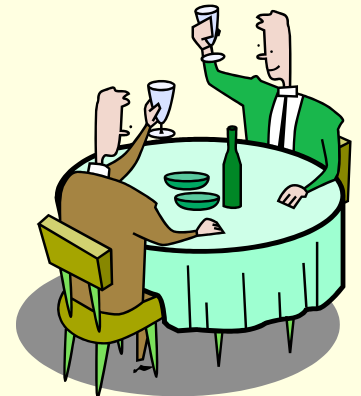
■ Post-Audit

- Reconciliation of all issues identified
- Continued review of ops & license requirements (51%)
- Complete final report
- Send completed report to winery, Enforcement and Tax Management



Benefits of Program

- Continues mission of check and balance on \$75 million in excise tax collected annually (wine and malt beverage combined)
- Increased compliance due to ABC interaction and communication
 - Benefits for wineries, Enforcement & Tax Management
- Reduced workload on Agents
 - Process will be separate, but blend with inspections
- Efficiency
 - If winery is VWDC participant, both audits will occur at the same time
- Ability to produce statistics on verified wineries



Questions

