

Department of the Treasury  
*Alcohol and Tobacco Tax and Trade Bureau*

2004 Performance and Accountability Report



*Building a Bureau*



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# Introduction

The Alcohol and Tobacco Trade and Tax Bureau (TTB) submits its 2004 Annual Performance & Accountability Report. This document is not compulsory under the Government Performance Results Act (GPRA) for this Bureau, but the Bureau has elected to present this Report in an effort to communicate relevant performance and financial information on its operations. The combining of the program performance and financial information into a single document provides a comparison of actual performance with projected (target) levels of performance as set out in Agency planning documents, annual performance budget, along with valuable financial information on the Bureau operations for the year. Although there is no prescribed format for an annual report, we have incorporated information in this Report on our mission statement, planning tools, the Bureau's progress on implementing the President's Management Agenda (PMA), results from the Performance and Assessment Rating Tool (PART) on our goals and the status of our performance measures, as well as relevant financial information. The document is separated into four parts.

*Part 1 – Management's Discussion and Analysis – provides messages from the Bureau Administrator and Chief Financial Officer; along with highlights of program and financial operations; and a summary of our program performance, along with challenges.*

*Part 2 – Program Performance Results – provides a recap of each performance measure, the results of the PART assessment reviews, and an update on the President's Management Agenda.*

*Part 3 – Financial Information – The Department of the Treasury is one of 23 Federal agencies that are required by Federal law to produce annual audited financial statements. This Bureau has presented unaudited financial statements as part of this document, but the transactions and records that comprise this information are part of the consolidated financial data, which have been presented at the Departmental level. Also included is some supplemental information, such as a history of collections for Federal excise tax collections for the past decade. Although these statements are not independently audited, the information should be viewed as reliable and accurate from management's perspective on the Bureau's financial operations.*

*Part 4 – Appendices – This section includes a history of the Bureau and strategic planning information that demonstrate linkages with the overall Department of the Treasury mission and goals.*

These four Parts are described more fully following our Vision, Mission, and Values statements and the messages from our Administrator and Chief Financial Officer.

## Message from the Administrator



The Alcohol and Tobacco Tax and Trade Bureau (TTB) has begun a new chapter in the Department of the Treasury's long and illustrious history. Legislation passed in January 2003 provided the impetus for a new beginning of an organization as old as Treasury itself. The history of the Bureau's regulatory responsibilities dates back to the creation of the Department of the Treasury and the first Federal taxes being levied on distilled spirits in 1791.

In FY 2004, the Bureau focused on its core missions to "Collect the Revenue" and "Protect the Public." The focal point of these missions rests on the two uniquely regulated consumer products, alcohol and tobacco, which generate significant tax revenue that TTB is charged with collecting. In FY 2004, the Bureau collected \$14.7 billion in Federal excise taxes from the alcohol and tobacco industries and ensured that alcohol beverages were labeled, advertised, and marketed in accordance with the law. Also, the Bureau administered the laws and regulations in a manner that protects the revenue, protects the consumer, promotes voluntary compliance, and facilitates the import and export trade in beverage and industrial alcohols.

Over the past year emphasis has been placed on reducing the taxpayer burden and increasing compliance through electronic Government initiatives. Those electronic initiatives provide a more effective and efficient way for industry members to pay their taxes and comply with regulatory issues. Alcohol and tobacco industries have been provided with the electronic means to file tax returns, make payments, and submit operational reports. Also, alcohol industries can submit labeling information online, which will save industry members considerable time and money in reporting information and making applications.

In addition to the electronic Government initiatives, we focused our efforts on the creation of an efficient and effective field audit and investigations program, which is designed to encourage voluntary compliance by taxpayers. This increased auditing and investigative work provides the public with the assurance that TTB will collect taxes that are rightfully due while maintaining the least invasive methodologies possible by newly established risk-based auditing methods.

Finally, for our customers and stakeholders, TTB will continue to work very hard to provide excellent, valuable service efficiently while remaining steadfast in our mission.

# Message from the Chief Financial Officer



I am pleased to present the Alcohol and Tobacco Tax and Trade Bureau's (TTB) fiscal year 2004 Performance and Accountability Report, which provides an accounting of our operations and organization performance. In our first full year as a new Bureau within the Treasury family—yet with a tradition as old as Treasury itself—we embarked on our mission to “Collect the Revenue” for various alcohol and tobacco activities and to “Protect the Public” to keep America safe from dishonest and/or perilous practices.

TTB implemented an ambitious agenda that focused on improving the performance of our programs and included organizational changes. The Office of the Chief Financial Officer (CFO)/Assistant Administrator was created to provide financial leadership and administrative support. To provide the most efficient and cost effective delivery of administrative and financial services, TTB has outsourced many of its financial, administrative, and e-Gov activities to the Treasury Franchise Fund (TFF) located in Parkersburg, West Virginia. TTB made this move, in part, because TFF's Oracle Financial Systems is Joint Financial Management Improvement Program (JFMIP) approved and has been time-tested over several years. All of our administrative and financial activities have been successfully implemented, resulting in a notably low overhead for the organization ... and the taxpayer. As a result, in its first full year of operations, TTB has experienced no material weaknesses and has implemented systems that support both the President's Management Agenda in the area of strengthening its financial management, while supporting e-Gov initiatives.

What does this mean to the taxpayer? TTB collected \$14.7 billion in federal excise tax revenues in FY 2004, paid approximately \$300 million in revenues to the Puerto Rican Government, refunded approximately \$350 million to Manufacturers of Non-Beverage Products (MNBP), and handled nearly \$150 million in accounts receivables ... on a budget of less than \$83 million. To this extent, TTB supports Treasury's goal of “Collect the Revenue Due to the Federal Government.”

Another challenge facing TTB was the migration of all its Information Technology (IT) systems from its predecessor, the Bureau of Alcohol, Tobacco, Firearms and Explosives (ATFE), which moved from the Treasury Department to the Department of Justice (DOJ). In the early phases of migration, TTB has been successful in conceiving, designing, and constructing its IT platform foundation.

The challenges that lie ahead are still considerable and we are committed to making financial and performance information an important tool for managers and executives. We will continue to find new ways to improve accountability, focus on results, and make sound financial decisions. We are up to the challenge ... we must be ... to provide world-class leadership to our constituents.

## **Vision**

*To create and maintain an organization of people who value each other and who treat each other and their customers with the respect that they deserve. We intend to uphold the laws, for which we are responsible, in a fair, equitable and appropriate manner, affording all an opportunity to have their opinions heard without prejudice. We intend to carry out our mission without imposing inappropriate or undue burden on those from which we collect taxes and those we regulate.*

## **Mission**

*To collect taxes owed, and to ensure that alcohol beverages are produced, labeled, advertised and marketed in accordance with Federal law. Our objectives are to protect the revenue, protect the consumer and promote voluntary compliance.*

## **TTB Values**

*We value each other and those we serve. We will:*

- *Uphold the highest standards of excellence and integrity;*
- *Provide quality service and promote strong external partnerships;*
- *Develop a diverse, innovative, and well-trained work force in order to achieve our goals collectively; and*
- *Embrace learning and change in order to meet the challenges of the future*



# PART I

## Management's Discussion and Analysis

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### The Organizational Structure

#### I. New Beginning

The Homeland Security Act reorganized the Federal Government for the first time in decades and brought the Alcohol and Tobacco Tax and Trade Bureau (TTB) into being. This legislation gave us a unique opportunity to set our own course and to focus on alcohol, tobacco, and related tax issues. TTB became a Bureau unto itself on January 24, 2003, when the Homeland Security Act of 2002 divested the Treasury Department of law enforcement functions.

TTB performs two primary goals—  
Collecting the Revenue and  
Protecting the Public.

#### II. Responsibilities of the TTB.

To support its missions of Collecting the Revenue and Protecting the Public, TTB is charged with the following:

- a. Collecting alcohol and tobacco excise taxes and classifying alcohol and tobacco products for excise tax purposes.
- b. Investigating applications and issuing permits for the operation of distilleries, wineries, and breweries.
- c. Investigating applications and issuing permits for tobacco manufacturers, importers, and exporters.
- d. Regulating the operations of various industrial users of distilled spirits, including manufacturers of non-beverage products and tax-free and denatured alcohols.
- e. Collecting special occupational taxes.
- f. Regulating the production, packaging, bottling, labeling, and storage of alcohol and tobacco products.
- g. Ensuring that labeling and advertising of alcohol beverages provide adequate information to the consumer concerning the identity and quality of the product.
- h. Preventing misleading labeling or advertising of alcohol beverages.
- i. Regulating the marketing and promotional practices concerning the sale of alcohol beverages by producers and wholesalers. This is done primarily through the investigation of allegations of illegal trade practices.

- j. Enforcing provisions of the Alcohol Beverage Labeling Act, which mandates that a Government warning statement, appear on all alcohol beverages for sale and distribution in the United States.

### III. Organizational Structure & Key Functions

TTB has 559 full-time-equivalent positions at Headquarters, laboratory facilities and field offices. Geographically, TTB Headquarters is located in Washington, DC, and field offices have been established in major U.S. cities, as well as Puerto Rico. The Washington, DC Office is comprised of roughly 150 staff, while the National Revenue Center (NRC) in Cincinnati is the base of operations for roughly 182 staff. The rest of our staff is based in field offices and at our lab facilities. The Bureau has two laboratory facilities. The field structure is comprised of 17 field offices located throughout the United States, with a single executive heading the major operations that include the National Revenue Center in Cincinnati, Ohio, and 10 field offices for the Tax Audit Division (TAD) and 7 field offices for our Trade Investigations Division (TID). A typical field office may accommodate roughly seven staff.

The components that comprise the organization are as follows. We describe each briefly.

#### Office of the Administrator

--Administrator. The Administrator of TTB, in conformity with policies and delegations of authority made by the Secretary of the Treasury, establishes

the policies and administers the activities of TTB.

--Deputy Administrator. The Deputy Administrator assists the Administrator in all aspects of the management of TTB and, as directed, performs the duties of the Administrator during his or her absence.

#### Equal Employment Opportunity/Diversity Advancement (EEO/DA)

The Office of Equal Employment Opportunity/Diversity Advancement provides leadership, direction, and guidance in carrying out TTB's equal employment opportunity, diversity, and civil rights responsibilities.

#### Office of the Chief of Staff (OCOS)

The OCOS coordinates all elements of the Bureau's strategic plan, Congressional and media interaction, office and program reviews, and issues relating to the Bioterrorism Act.

#### Office of Chief Counsel (CC)

The Office of Chief Counsel provides legal advice to the Administrator and Deputy Administrator, as well as subordinate officials within TTB, and is responsible for performing all of the legal services connected with the laws under the jurisdiction of TTB.

#### Office of the Chief Finance Officer/Management (MGT)

MGT supports the mission of TTB by providing accurate, timely, and useful human resources, facilities, procurement, training, and financial information and guidance to its customers.

#### Office of the Chief Information Officer (OCIO)

The OCIO is responsible for providing effective and secure IT solutions that

allow TTB to carry out its mission without imposing undue burden on industries that the Bureau regulates.

Office of Headquarters Operations (HQ)  
HQ supports TTB in its efforts to protect the American public and the revenue generated from its regulated industries.

#### Laboratory Facilities

The laboratories provide scientific support, technical guidance, monitoring and analysis of alcohol and tobacco products.

- Ammendale, Maryland
- Walnut Creek, California

Office of Field Operations (FO)  
The mission of FO is to ensure effective tax and trade compliance with the Federal Alcohol Administration Act and the Internal Revenue Code by providing assistance and advice to other Federal and State Agencies, industry members, and the public. In addition, FO develops and implements programs and conducts tax audits and investigations of industry members.

TID conducts field operations through its seven District offices nationwide. A District Director heads each field office. The District offices are:

- California District Office, Sacramento, California
- Mountain District Office, St. Paul, Minnesota
- Midwest District Office, Cleveland, Ohio
- Northeast District Office, Philadelphia, Pennsylvania

- Puerto Rico District Office, Hato Rey, Puerto Rico
- Northwest District Office, Vancouver, Washington
- Southeast District Office, Tampa, Florida

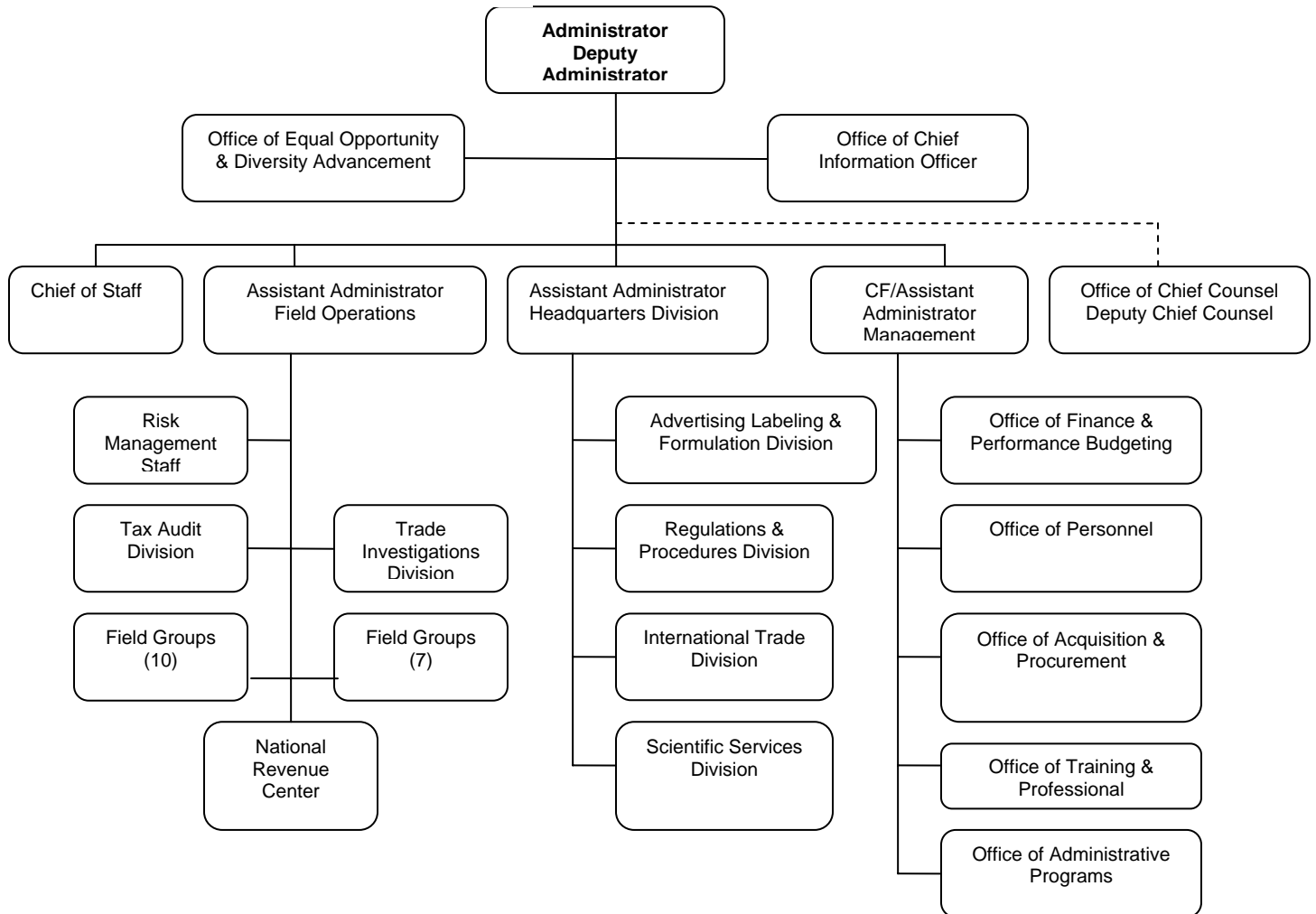
Subordinate offices in each District are called alternative workplaces and are located within the residences of field investigators and auditors.

TAD conducts audit operations through its 10 field offices nationwide. A District Director heads each field office. The field offices are located in:

- Greensboro, North Carolina
- Philadelphia, Pennsylvania
- Manchester, New Hampshire
- Tampa, Florida
- Cincinnati – East, Ohio
- Cincinnati – West, Ohio
- San Francisco, California
- Los Angeles, California
- Seattle, Washington
- Dallas, Texas

# TTB Organizational Chart

Dated: April 4, 2005



# Management's Discussion and Analysis

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## Strategic Plan and Performance Goals

**T**his Performance and Accountability Report includes performance and financial data for FY 2004. Highlights of those achievements obtained during the bureau's first full year of operation are the result of sound business planning and execution. The business plans focused on three strategic goals – Protecting the Public, Collecting the Revenue, and Refining Management Practices.

With the Government Performance and Results Act (GPRA), Congress has established a management tool that requires that the Federal Government be held accountable to our fellow citizens as relates to the tax dollars appropriated to and expended by TTB. GPRA further requires that the funding expended be justified by end results.

TTB is required to validate the effectiveness and efficiency of our operations and our programs. TTB has embraced GPRA with the development of a comprehensive Strategic Business Plan, annual performance plans, and Performance and Accountability Reports.

## Strategic Goals

### *Collect the Revenue*

**Provide the most effective and efficient system for the collection of all revenue that is rightfully due, eliminate or prevent tax evasion and other criminal conduct, and provide high quality service, while imposing the least regulatory burden.**

As the third largest tax collection agency in the U.S. Government, one of TTB's goals is to improve service to the taxpayer, which includes reducing the burden of complying with Federal laws. In FY 2004, TTB collected \$14.7 billion in excise taxes from alcohol, tobacco, and firearms and ammunition.

About 97 percent of this figure came from the alcohol and tobacco industries (roughly 4,000 entities). Alcohol represents about 46 percent of the annual tax receipts, and revenue collections from tobacco represent about 51 percent. The remaining 3 percent was from firearms, ammunition, and special occupational tax collections. About 400 taxpayers, or 8 percent, account for approximately 98 percent of annual tax collections.

### ***Reduce taxpayer burden and improve service***

- Use Electronic Government
- Reduce the taxpayer paperwork burden associated with collection of the revenue by creating alternative electronic filing methods.
- Increase online filing and payment of tax returns, business activity reports, claims, applications, COLAs, and other forms.
- Increase program effectiveness through partnerships with industry, States, and other Federal agencies.
- Continue to automate business applications at the National Revenue Center (NRC).
- Improve collections and efficiency of service through information sharing efforts, such as seminars, publications, and industry meetings.
- Ensure consistent tax administration.

### ***Collect all the revenue that is rightfully due***

- Account accurately for the revenue assessed and collected.
- Increase review of taxpayer returns and collect delinquencies to ensure voluntary compliance.
- Ensure correct payment of taxes through audit of “at-risk” taxpayers.
- Implement and refine ways to identify potential tax jeopardy patterns.

- Through partnership with industry, States, and other Federal agencies, develop alternative methods of promoting voluntary tax compliance.

### ***Prevent tax evasion and identify other criminal conduct in the regulated industries***

- Investigate and assist with the prosecution of business entities suspected of being involved in tax evasion schemes, including diversion and smuggling of taxable commodities.
- Forge partnerships with and provide training to Federal, State, local, tribal, and foreign governments to enforce tax laws.

## ***Protect the Public***

**Prevent consumer deception, ensure that regulated alcohol and tobacco products comply with Federal commodity, safety, and distribution requirements, and provide high quality customer service.**

### ***Assure the integrity of the products, people, and companies in the marketplace***

- Ensure that only qualified applicants enter the regulated industries.
- Perform appropriate testing, laboratory analyses, and review documents of regulated commodities to ensure product safety and integrity.

- Review and act on labels and formulas for domestic and imported beverage alcohol products and maintain public access to approved COLAs.

***Ensure compliance with laws and regulations through education, inspection, and investigation***

- Respond to industry and consumer complaints. Investigate product contamination and adulteration.
- Investigate thefts of regulated commodities.
- Investigate violations of trade practices, labeling, and advertising in the beverage alcohol industry.
- Inspect alcohol beverages at producer and importer premises to detect consumer deception on health issues.
- Educate interested parties on the laws and regulations of the United States and other countries in areas concerning the regulated industries.

***Inform the public***

- Publicize information on TTB policies and regulations, product safety, and theft prevention using the Internet, trade publications, seminars, and industry meetings.

- Work in partnership with others to inform, advise, and educate the public.
- Inform and guide the regulated industries on the Federal laws and regulations and their compliance responsibilities.

***Refine Management Practices***

**Ensure that all TTB Programs operate at optimum efficiency and effectiveness and with full accountability, by providing high quality management and administrative support.**

***Implement a performance-based management system for meeting TTB's mission.***

- Maintain a TTB strategic plan and develop annual performance plans that identify/require specific results, fulfill all relevant Office of Management and Budget (OMB) requirements, and provide effective direction for managing the Bureau's resources and allocation decisions.
- Provide effective policy guidance, administration, and leadership, so that TTB achieves at least 85 percent of its annual performance goals.

***Employ information technology to support program management and improve TTB mission performance through the deployment of information systems that are secure, compatible, and cost effective***

- Expand Electronic Government initiatives and implement e-clearance and e-signature policies and procedures.
- Accredit all information technology systems for security compliance and ensure that all security patches are applied.
- Improve business cases for all IT systems.
- Implement and improve enterprise architecture.
- Implement a capital planning and investment control process.

***Use financial management systems to support TTB strategic management and financial accountability by providing information that is useful, timely, and reliable and that assists TTB in optimizing decision-making.***

- Ensure a clear link between TTB's vision, mission, strategic plan, and program and budget decisions, and tie resources to results.
- Meet the financial compliance standards and improve the budget formulation and execution process.

- Ensure prompt payment to providers of goods and services.
- Expand competitive sources of TTB services, where possible.

***Manage human capital to support TTB programs and the achievement of Bureau goals by building and sustaining a work environment conducive to performance excellence, and personal and organizational development.***

- Administer human capital programs so that employees and supervisors express overall satisfaction with their jobs and the personnel services that they receive.
- Provide a safe and healthy work environment and ensure that facilities accommodate mission and program requirements.
- Make use of job flexibilities such as alternative work schedules and telecommuting, in order to benefit employees and reduce the cost of facilities.
- Provide employees with the tools, training, skills and work environment to excel at job performance in an electronic Government environment.
- TTB has worked diligently to ensure that we are a model agency in efficiency and effectiveness. Some of our major accomplishments for this year follow.

## Management's Discussion and Analysis



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## Performance Summary

In the previous section, it became clear that the Strategic Business Plan drove many of our initiatives and accomplishments. We list some highlights here.

### **Business Process Reengineering**

In June 2004, Kelly, Anderson and Associates, Inc., completed a 5-month independent evaluation of the National Revenue Center (NRC). The scope of the evaluation focused on evaluating the effectiveness and efficiency of the core business process of the NRC. These processes include Claims, Applications, Tax Returns and Reports, Special Occupational Tax, and Firearms and Ammunition Tax.

The evaluation provided TTB with a number of recommendations for improvement. As a result of the evaluation, TTB realigned the organization to the TTB Strategic Business Plan, separating the Collect the Revenue tax-related work from Protect the Public activities. This realignment will improve accountability.

### **PMA/PART/Performance Measures**

During FY 2004, TTB took several steps to measure and improve performance in achieving its strategic goals of Protecting the Public and Collecting the Revenue. More specifically, TTB used Bureau-specific performance measures, the President's Management Agenda (PMA) and the Program Assessment Rating Tool (PART) as vehicles to create an atmosphere of positive changes.

- **Performance Measures** – In FY 2004, TTB tracked 10 performance measures. We compared actual performance-to-performance goal target levels in each of these areas and met 6 of the 9 targets, and 1 target was baseline. Two of the three targets not met, missed the performance target by less than one percent of the goal. Also, a number of performance measures were being tracked internally but were not reported externally.
- **PMA** –The Agenda contains five initiatives to improve management and deliver results to our customers. The five initiatives are strategic management of human capital, competitive sourcing, improved financial performance, expanded electronic Government, and budget and performance integration. Ratings are given for each initiative and are designated as red (unsatisfactory), yellow

(mixed results), or green (successful). Based on Treasury analysis, TTB received a green rating in the category of improved financial performance and yellow in the remaining categories. In FY 2004, TTB made tremendous strides advancing the progress of the PMA initiatives laying the foundation to achieve the results necessary to support a successful PMA program.

- **PART** – Program evaluation is a core management objective used by TTB to allocate resources and promote efficiency and effectiveness and is a vital part of TTB’s efforts to meet strategic objectives. TTB is scheduled for its first PART review as a Bureau for the “Collect the Revenue” activity in the spring of 2005.

# Management's Discussion and Analysis

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## Performance Accomplishments

Expanding on the previous section, this Part addresses some of the program and financial key components related to performance.

### **STRATEGIC GOAL: COLLECT THE REVENUE**

- Collected \$14.7 Billion in revenue generated from Federal excise taxes imposed on alcohol, tobacco, firearms, and ammunitions.
- The National Revenue Center processed over 400,000 tax returns and operational reports during FY 2004.
- Field Operations implemented an integrated audit automation system that tracks results of audits and field investigations and ensures that operations function in an economical and efficient manner.
- Completed 54 audits of alcohol and tobacco companies to ensure that the federal excise taxes paid was for the amount rightfully due under the law.
- Consolidated two of the databases under the Integrated Revenue Information System (IRIS), which now hosts the application processing data and operational reports data.
- Expanded the Pay.gov. Program to allow all excise taxpayers to file and pay electronically.
- During FY 2004, TTB's Laboratory Services

accomplished the following initiatives regarding Collecting the Revenue. The laboratories:

- Examined 1,777 beverage alcohol samples for product integrity and compliance (covers both revenue collection and consumer protection)
- Processed 10,403 Non-Beverage Alcohol Flavor formulas, riders, and samples
- Processed 2,242 specially denatured alcohol formulas and samples
- Processed 92 tobacco tax classification submissions
- Processed 133 Form 5010 Tax Credit submissions
- Proposed standards of identity for small cigar classification and established an analytical methodology for small cigar classification

### **STRATEGIC GOAL: PROTECT THE PUBLIC**

- The Bureau processed over 100,000 Certificates of Label Approval (COLA) under the Federal Alcohol Administration Act, which requires importers and bottlers of beverage alcohol to obtain COLAs for most alcohol beverages prior to their

- introduction into interstate commerce. TTB reviews the labels to ensure the document complies with Federal laws and regulations aimed at protecting the consumer.
- Launched the COLA online system that allows industry members to file their applications for labels electronically
  - Investigators conducted over 1,200 investigations, including 540 permit and notice applications, 421 product integrity, 18 trade practice/alcohol advertising, and 196 revenue investigations.
  - The National Revenue Center processed applications and screened nearly 4,300 original permit applications to establish new operations in alcohol and tobacco-related industries in FY 2004. As a result of the Bureau's screening and investigation efforts, an average of 10 percent of all original applications are denied or withdrawn annually.
  - The NRC processed nearly 8,000 amended permit applications filed and manages the files on 36,000 active permit holders.
  - The laboratories at TTB provided scientific support on classification of tobacco products for tax purposes, approval of non-beverage and specially denatured alcohol formulas, analysis of pre-import and marketed alcohol beverage products for class and type designation, determining product safety, monitoring of market products and technical guidance in formulating regulations.
  - The International Trade Division coordinated several technical briefings for foreign officials including the Scottish Affairs Committee, Japan's National Tax Agency, Bulgaria, and China. TTB also provided technical assistance on the European Union/United States Bilateral Wine Trade Agreement, the World Wine Trade Group labeling agreement, and the Mexico/U.S. Tequila trade agreement.
  - The Regulations and Procedures Division (RPD) prepared and published 46 documents in the Federal Register under its Regulations Program. These included 12 final rulemaking documents that involved changes to the regulations administered by TTB, 7 notices of proposed rulemaking, and 27 information collection notices under the Paperwork Reduction Act of 1995.
  - The Bureau implemented streamlined procedures for processing American viticultural area petitions. We standardized language and more effectively explain the potential for conflict between a proposed viticultural area name and a name already used as a brand name on an approved wine label.
  - The Bureau works closely with two primary organizations of State alcohol beverage regulators, the National Conference of State Liquor Administrators and the National Association of Beverage Control Administrators to promote cooperative efforts and programs

for alcohol beverage regulation and taxation.

- The Bureau works on various cross cutting coordination efforts with the following:
- Food and Drug Administration
- United State Department of Agriculture
- Federal Trade Commission
- Joint Committee of the States
- Office of the U.S. Trade Representative
- U.S. Customs and Border Protection
- Federation of Tax Administrators

### **STRATEGIC GOAL: REFINE MANAGEMENT PRACTICES**

- New TTB Headquarters: During FY 2004, the Bureau moved to its new location at 1310 G Street, NW, in Washington, DC.
- The Bureau developed a Continuity of Operations Plan (COOP), which provides guidance to ensure the continuity of Bureau essential services through a wide range of potential emergencies.
- TTB relocated both our primary and secondary remote emergency sites. The former is at Martinsburg, West Virginia, and the latter is located at our Greensboro, North Carolina office.
- Implemented a number of Quality of Life programs such as the flexi-place program. The Bureau has roughly 80 investigators participating in this program full time.
- The early stages of the separation of the Information

Technology infrastructure from ATF began in FY 2004, with strategic investments in hardware and planning.

- Created the Office of the CFO/Management consistent with the recommendations from the Office of Inspector General. This Office provides management oversight over finance, human resources, facilities, procurement, training, and information technology.
- TTB was a strong advocate of the President's Management Agenda (PMA), which encouraged the competitive outsourcing of services that could be performed by the private sector or by other cross servicing government agencies in a cheaper, faster and more effective manner. While setting up the bureau a conscious effort was made to minimize overhead costs and outsource administrative support services. The bureau developed a strategy to transition all of its human resource, financial, procurement, property, and training services to the Department of the Treasury Bureau of Public Debt Administrative Resource Center (BPD ARC). Also, plans were developed to transition the information technology infrastructure and support services to the private sector. In FY 2004, the Human Resources function was transferred to the Bureau of Public Debt-Administrative Resource Center, and the remaining administrative and financial support services are to be transferred at the beginning of FY 2005.

- Commitment to outsourcing for administrative and financial support functions. In creating the Bureau, emphasis was placed on front line employees and

minimizing support staff. The Bureau also outsourced its information technology services to commercial firms.

# Management's Discussion and Analysis

## Financial Highlights

### Federal Excise Tax Collections

As an agent of the Federal Government and as authorized by 26 U.S.C., TTB collects excise taxes from alcohol, tobacco, firearms and ammunition industries. In addition, special occupational taxes are collected from certain alcohol and tobacco businesses. During FY 2004, TTB collected more than \$14.7 billion in taxes, interest, and other revenues.

Substantially all of the taxes collected by TTB net of related refund disbursements are remitted to the Department of the Treasury General Fund. The Department further distributes this revenue to Federal agencies in accordance with various laws and regulations. The firearms and ammunition excise taxes are an exception. Those revenues are remitted to the Fish and Wildlife Restoration Fund under provisions of the Pittman-Robertson Act of 1937.

FY 2004 Excise Tax Collections:

|                |                      |
|----------------|----------------------|
| Alcohol.....   | \$6,995,725,000      |
| Tobacco.....   | \$7,433,852,000      |
| FAET.....      | \$216,006,000        |
| SOT.....       | \$100,562,000        |
| <br>TOTAL..... | <br>\$14,746,145,000 |

### Refunds and Other Payments

During FY 2004, TTB issued more than \$713,768,000 in refunds, cover-over payments and drawback payments.

|                                      |    |             |
|--------------------------------------|----|-------------|
| Alcohol, Tobacco Excise Tax Refunds  | \$ | 15,409,000  |
| Cover-over Payments - Puerto Rico    | \$ | 335,293,000 |
| Cover-over Payments - Virgin Islands | \$ | 6,244,000   |
| Drawbacks on MNBP Claims             | \$ | 355,605,000 |
| Interest and Other Payments          | \$ | 1,217,000   |
|                                      |    | <hr/>       |
|                                      | \$ | 713,768,000 |

### Cover-over Payments

Federal excise taxes are collected under the Internal Revenue Code of 1986, 26 U.S.C., on certain articles produced in Puerto Rico and the Virgin Islands, and imported into the United States. In accordance with 26 U.S.C. 7652, such taxes collected on rum imported into the United States are "covered over" or paid into the treasuries of Puerto Rico and the Virgin Islands. For FY 2004, \$335,293,000 have been processed in cover-over payments to Puerto Rico.

## **Drawbacks**

Under current law, 26 U.S.C. 5134, Manufacturers of Non-Beverage Products (MNBP) may be eligible to claim a refund of tax paid on distilled spirits used in their products. During FY 2004 drawback payments totaled \$355,605,000. In the case of distilled spirits, on which the tax has been paid or determined, a drawback shall be allowed on each proof gallon at the rate of \$1 less than the rate at which the distilled spirits tax had been paid or determined. The refund is due upon the claimant providing evidence that the distilled spirits on which the tax has been paid or determined, were unfit for beverage purposes and were used in the manufacture or production of medicines, medicinal preparations, food products, flavors, flavoring extracts, or perfume. The claimant submits a product formula to the TTB lab for analysis and approval of the non-beverage claim.

## **FY 2004 Bureau Budget: Salaries and Expenses Account**

The FY 2004 budget for Salaries and Expenses is \$79,528,000 and the full time equivalent staffing level (FTE) is 544 for direct appropriations and 15 for reimbursable, for a total staffing level of 559. In addition, reimbursable funding of \$1,700,000 was available as offsetting collections in a reimbursable

account. The Bureau obligated 99.7% of its FY 2004 budget.

## **Offsetting Collections and Reimbursable Accounts**

The Bureau was allocated \$1,700,000 for FY 2004 to cover the costs of operating the office in Puerto Rico. The actual reported costs associated with the functioning and supporting of the Puerto Rico office was \$1.1 million and was offset against the cover-over payments made by the United States to Puerto Rico. All costs associated with the functioning and support of the Puerto Rico office are paid from the "cover-over" (return) which is offset from the roughly \$335 million in cover over taxes collected in the United States on products originating in Puerto Rico and the Virgin Islands. In Puerto Rico, TTB conducts annual audit/investigations of industry members regarding the collection of revenue, application processing and product integrity. Revenue inspections are used to conduct tax examinations on major producers of alcohol and tobacco. This is critical due to the requirements of verifying tax payments under the IRC and subsequent accountability of all cover-over amounts due the Puerto Rico government. All distilled spirits producers/processors, wineries, wholesalers, importers, Manufacturer of Non-Beverage Products claimants and Specially Denatured Alcohol permit applicants, including those in Puerto Rico, are subjected to a qualification inspection under the



IRC. Additionally, major producers of distilled spirits, wine, and malt beverages are subjected to inspection and audits.

information from management's perspective on the Bureau's financial operations.

## **Unaudited Financial Statements**

The Department of the Treasury is one of twenty-three Federal agencies that are required by Federal law to produce annual audited financial statements. The Alcohol and Tobacco Tax and Trade Bureau's (TTB) financial activities are an integral part of the information reported on by the Department of the Treasury. On November 12, 2004, the independent auditor's report was issued expressing an unqualified opinion on the Treasury Department's financial statements. This means that the financial information presented by the Department of the Treasury, which includes this Bureau, was presently fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. The report did not disclose any material weaknesses on internal controls or reportable conditions on TTB. For purposes of the TTB's Performance and Accountability Report, we have included "unaudited" financial information that pertains exclusively to TTB, as a separate entity, and can be used as a useful tool in understanding the financial operations of TTB. Although these statements are not independently audited, the information should be viewed as reliable and accurate

## **Bureau's Transition of Financial Records from ATF to the Bureau of Public Debt**

During FY 2004, the administrative, financial and information technology support services were provided to TTB by the Department of Justice, Bureau of Alcohol Tobacco and Firearms (ATF). The aim was to transition all of these support services under the umbrella of the Department of the Treasury. TTB developed a strategy to migrate all of its administrative requirements to the Department of the Treasury, Bureau of Public Debt Administrative Resource Center (BPD ARC), and its information technology support to commercial businesses. At the beginning of October 1, 2004, TTB formally separated our financial information and records from the systems currently in place at ATF. BPD ARC will provide TTB with cross servicing support of financial operations for the long term. During 2004, TTB developed a multi phase conversion strategy that would essentially allow it to be operational on October 1, 2004 with BPD ARC under a full servicing agreement, while efforts were to continue to allow legacy data to be migrated under BPD into a new reporting repository.

## **Dedicated Funding for the IT Infrastructure**

TTB's transition from ATF's IT infrastructure was started in FY 2004 and is expected to be completed during FY 2005. TTB made a series of investments in IT during FY 2004 that made substantial contributions to our successful migration (in FY 2005 Congress earmarked an additional

\$1,058,000 in resources to be used to facilitate this transfer). In the President's FY 2006 Budget an additional \$4,404,000 has been added to our base resources to cover all recurring costs necessary to ensure that the IT infrastructure of TTB is operating its core business applications.

# Management's Discussion and Analysis

## TTB's Challenges

This section is reserved to focus on the agency's most serious management and performance challenges, as identified by the Inspector General's office. For FY 2004, TTB has received no reported serious performance challenges or related audit issues.

## Part II

# Performance Goals, Objectives, and Results

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## Performance Measures

|                                   |           |
|-----------------------------------|-----------|
| <b>Total Performance Measures</b> | <b>10</b> |
| Performance Targets Met           | 6         |
| Unmet                             | 3         |
| Not Available                     | 0         |
| Baseline                          | 1         |

FY 2004 was TTB's first full year in existence as a Bureau. The number of measures tracked by the Bureau in FY 2004 was 10, and 6 of those performance targets were met, while 3 were unmet and 1 was baseline. Two of the three targets not met, missed the performance target by less than one percent of the goal. TTB continues to assess its performance for each goal and new measures will be forthcoming.

Furthermore, the Bureau, on a routine basis, captures performance information on program operations for internal management purposes. Also, the Bureau is creating long term goals for most of our performance measures in order to further monitor our effectiveness.

Below is a comparison of actual performance-to-performance goal target levels for the 10 measures that TTB tracked in FY 2004. Additionally, where a performance goal was not achieved, an explanation has been provided.

### ACTIVITY: COLLECT THE REVENUE

**Performance Measure:** *Taxes collected from the alcohol and tobacco industries and FAET taxpayers (in billions)*

**Definition:** Includes revenue collected through alcohol, tobacco, firearms and ammunition excise taxes, and special occupational taxes.

**Type of Measure:** Output

**Source:** The Revenue Accounting Unit performs daily reconciliations by comparing subsidiary ledgers from FET and SOT to the revenue accounting system.

|                   |                   |                   |         |           |                     |
|-------------------|-------------------|-------------------|---------|-----------|---------------------|
| FY 2001<br>Actual | FY 2002<br>Actual | FY 2003<br>Actual | FY 2004 |           | FY 2005<br>Proposed |
|                   |                   |                   | FY Plan | FY Actual |                     |

|    |    |      |      |             |      |
|----|----|------|------|-------------|------|
| -- | -- | 14.6 | 14.6 | <b>14.7</b> | 14.6 |
|----|----|------|------|-------------|------|

**FY 2004 Performance:** Target Met

**Performance Measure:** *Percentage of tax-related transactions (applications, reports, returns) received electronically (in %)*

**Definition:** Represents the percent of tax-related documents received electronically from alcohol and tobacco customers, as well as the firearms excise taxpayers, who use electronic filing instead of paper filing.

**Type of Measure:** Efficiency

**Source:** Taxpayer burden will be lower because the cost of processing electronically is vastly lower than paper filing. Information is derived from the Pay.gov reports.

| FY 2001<br>Actual | FY 2002<br>Actual | FY 2003<br>Actual | FY 2004 |             | FY 2005<br>Proposed |
|-------------------|-------------------|-------------------|---------|-------------|---------------------|
|                   |                   |                   | FY Plan | FY Actual   |                     |
| --                | --                | 0.1%              | 0.2%    | <b>0.7%</b> | 10%                 |
| <i>Corrected</i>  |                   |                   |         |             | 5%*                 |

**FY 2004 Performance:** Target Met/Exceeded; Performance Exceeds Prior Year

- Updated Program Performance information since Treasury FY 2004 Performance and Accountability Report.

**Performance Measure:** *Percentage of Voluntary Compliance in filing tax payments timely and accurately*

**Definition:** The portion of total taxpayers that file payments on or before the scheduled due date, without notification of any delinquency.

**Type of Measure:** Outcome

**Source:** Late filed tax payments are maintained in the Federal Excise Tax system (FET).

| FY 2001<br>Actual | FY 2002<br>Actual | FY 2003<br>Actual | FY 2004 |               | FY 2005<br>Proposed |
|-------------------|-------------------|-------------------|---------|---------------|---------------------|
|                   |                   |                   | FY Plan | FY Actual     |                     |
| --                | --                | 80%               | 82.0%   | <b>81.2%</b>  | 92.0%               |
| <i>Corrected</i>  |                   |                   |         | <b>82.0%*</b> |                     |

**FY 2004 Performance:** Target Met

- Updated Program Performance information since Treasury FY 2004 Performance and Accountability Report.

**Explanation of Challenge:** The performance measure was set at an approximate target level, and the deviation from the level is slight. There was no effect on program performance.

**Performance Measure: *Percentage of total tax receipts collected electronically***

**Definition:** The portion of total tax collected from taxpayers via electronic funds transfer (EFT).

**Type of Measure:** Efficiency

**Source:** Data on tax payments made electronically are recorded in Cashlink. The Revenue Accounting Unit retrieves the wire transfer information from Cashlink. The detail records are input into the Electronic Wire Transfer table using the Federal Excise Tax System.

| FY 2001<br>Actual | FY 2002<br>Actual | FY 2003<br>Actual | FY 2004 |              | FY 2005<br>Proposed |
|-------------------|-------------------|-------------------|---------|--------------|---------------------|
|                   |                   |                   | FY Plan | FY Actual    |                     |
| --                | --                | --                | 98.0%   | <b>97.3%</b> | 98.0%               |

**FY 2004 Performance:** Target Not Met

**Explanation of Challenge:** The performance measure was set at an approximate target level, and the deviation from the level is slight. There was no effect on overall program or activity performance.

**Performance Measure: *Annual compliance rate***

**Definition:** Portion of the taxpayers that have been audited that have no findings indicating adverse financial conditions, significant decline/change in the industry, weak internal controls and/or unfavorable business practices.

**Type of Measure:** Outcome

**Source:** Based on audit reports/findings issued for large taxpayers audited.

| FY 2001<br>Actual | FY 2002<br>Actual | FY 2003<br>Actual | FY 2004  |            | FY 2005<br>Proposed |
|-------------------|-------------------|-------------------|----------|------------|---------------------|
|                   |                   |                   | FY Plan  | FY Actual  |                     |
| --                | --                | --                | Baseline | <b>91%</b> | 93%                 |

**FY 2004 Performance:** Baseline established

**Performance Measure: *Ratio of taxes collected vs. resources expended***

**Definition:** Represents the amount of taxes collected, divided by the amount of resources expended to collect such taxes.

**Type of Measure:** Efficiency

**Source:** Both of these components represent information that is subject to annual audits and routine reconciliation

| FY 2001<br>Actual | FY 2002<br>Actual | FY 2003<br>Actual | FY 2004 |              | FY 2005<br>Proposed |
|-------------------|-------------------|-------------------|---------|--------------|---------------------|
|                   |                   |                   | FY Plan | FY Actual    |                     |
| --                | --                | 242:1             | 257:1   | <b>368:1</b> | 250:1               |

**FY 2004 Performance:** Target Met/Exceeded; Performance Exceeds Prior Year

**ACTIVITY: PROTECT THE PUBLIC**

**Performance Measure: *Percentage of COLA applications processed within 9 calendar days following receipt***

**Definition:** Represents the turn-around time for Certification of Label Approval (COLA) processing for both electronic and paper transactions.

**Type of Measure:** Efficiency

**Source:** Both of these components represent information that is subject to annual audits and routine reconciliation

| FY 2001<br>Actual | FY 2002<br>Actual | FY 2003<br>Actual | FY 2004 |             | FY 2005<br>Proposed |
|-------------------|-------------------|-------------------|---------|-------------|---------------------|
|                   |                   |                   | FY Plan | FY Actual   |                     |
| --                | --                | 57%               | 60%     | <b>27%</b>  | 35%                 |
| <i>Corrected</i>  |                   |                   |         | <b>23%*</b> |                     |

**FY 2004 Performance:** Target Not Met

- Updated Program Performance information since Treasury FY 2004 Performance and Accountability Report.

**Explanation of Challenge:** The target was not met this year due to the increasing number of COLA application submissions, the customer and TTB employee learning curve when working with our new COLAs Online label application database, and because we are still in the process of recruiting and training new staff for this activity.

**Performance Measure: *Percentage of electronically filed COLA applications***

**Definition:** Represents the percentage of electronically filed COLA applications submitted for processing

**Type of Measure:** Efficiency

**Source:** Both of these components represent information that is subject to annual audits and routine reconciliation

| FY 2001<br>Actual | FY 2002<br>Actual | FY 2003<br>Actual | FY 2004 |           | FY 2005<br>Proposed |
|-------------------|-------------------|-------------------|---------|-----------|---------------------|
|                   |                   |                   | FY Plan | FY Actual |                     |

|                  |    |    |      |             |      |
|------------------|----|----|------|-------------|------|
| --               | -- | 3% | 7%   | <b>15%</b>  | 20%  |
| <i>Corrected</i> |    |    | 10%* | <b>14%*</b> | 15%* |

**FY 2004 Performance:** Target Met/Exceeded; Performance Exceeds Prior Year

- Updated Program Performance information since Treasury FY 2004 Performance and Accountability Report.

**Performance Measure: *Percentage of non beverage formula submissions processed within 10 working days of receipt***

**Definition:** Represents the turn-around time for processing lab analysis on non beverage formula submissions

**Type of Measure:** Efficiency

**Source:** Both of these components represent information that is subject to annual audits and routine reconciliation

| FY 2001<br>Actual | FY 2002<br>Actual | FY 2003<br>Actual | FY 2004 |              | FY 2005<br>Proposed |
|-------------------|-------------------|-------------------|---------|--------------|---------------------|
|                   |                   |                   | FY Plan | FY Actual    |                     |
| --                | --                | 85%               | 90%     | <b>95.3%</b> | 90%                 |
| <i>Corrected</i>  |                   | 65%*              |         |              |                     |

**FY 2004 Performance:** Target Met/Exceeded; Performance Exceeds Prior Year

- Updated Program Performance information since Treasury FY 2004 Performance and Accountability Report.

**Performance Measure: *Percentage of specially denatured alcohol formula submissions completed within 10 days of receipt***

**Definition:** Represents the turn around time for processing lab analysis on specially denatured alcohol formula submissions

**Type of Measure:** Efficiency

**Source:** Both of these components represent information that is subject to annual audits and routine reconciliation

| FY 2001<br>Actual | FY 2002<br>Actual | FY 2003<br>Actual | FY 2004 |              | FY 2005<br>Proposed |
|-------------------|-------------------|-------------------|---------|--------------|---------------------|
|                   |                   |                   | FY Plan | FY Actual    |                     |
| --                | --                | N/A               | 90%     | <b>88.9%</b> | 90%                 |

**FY 2004 Performance:** Target Not Met

**Explanation of Challenge:** The performance measure was set at an approximate target level, and the deviation from the level is slight. There was no effect on overall program or activity performance.



# Performance Goals, Objectives, and Results

## President's Management Agenda (PMA)






PMA is a bold strategy for improving the management and performance of the Federal Government. The Agenda contains five Government-wide initiatives to improve Federal management and deliver results that matter to the American people.

The five initiatives are:

1. Strategic Management of Human Capital
2. Competitive Sourcing
3. Improved Financial Performance
4. Expanded Electronic Government
5. Budget and Performance Integration

The Office of Management and Budget regularly assesses all Federal agencies' PMA implementation. Ratings are given for each initiative and are designated as red (unsatisfactory), yellow (mixed results), or green (successful). The scorecard below shows the status for TTB at the end of FY 2004 based on the analysis of Treasury Departmental Offices:

### PMA Scorecard Based on Treasury Analysis

| Initiative                     | Status  |
|--------------------------------|---|
|                                | FY 2004   |
| Human Capital                  |  |
| Competitive Sourcing           |  |
| Financial Performance          |  |
| E-Government                   |  |
| Budget-Performance Integration |  |



Green for Success



Yellow for Mixed Results



Red for Unsatisfactory

**Strategic Management of Human Capital - Status “Yellow”.**

Beginning June 2004, TTB outsourced all of its human resource functions to the Bureau of Public Debt. The human resource services provided by BPD include staffing and recruitment; personnel/payroll actions; employee benefits and retirement; time and attendance; official personnel records; classification; training; employee/labor relations; and performance management. Performance benchmarks and measures have been established to monitor contract performance.

Also, TTB has adopted a progressive five- tier performance management system that cascades throughout the organization. The new performance system holds employees and managers accountable for program results.

**Competitive Sourcing – Status “Yellow”.**

TTB has created a streamlined organization by contracting with governmental and commercial sources for services that are not inherently governmental (e.g., human resources, information technology, and accounting).

**Improved Financial Performance- Status “Green”.**

TTB has achieved green status in this initiative, because no unresolved internal control material weaknesses or reportable conditions were found and all audits have been unqualified. The Agency has successfully used financial management to meet financial

deadlines and avoid Anti-Deficiency Act violations.

During FY 2004, the foundation was laid to ensure a smooth transition of the financial records from the Alcohol, Tobacco and Firearms (ATF) platform to the Department of the Treasury, Bureau of Public Debt. The Bureau began FY 2004 with BPD as the service provider for the financial records. Performance benchmarks and measures have been established to monitor contract performance. The final stages of the conversion of the tax data for the financial records will be transitioned during FY 2005.

**Expanded Electronic Government- Status “Yellow”.**

The Agency has a modernization blueprint that focuses information technology (IT) investments on important Agency functions and defines how those functions will be measurably improved.

All TTB systems and projects have approved business cases, and 100 percent of IT systems have certification and accreditation. TTB launched its online system for Certificates of Label Approval Filing for industry members, and this innovation will improve the submission and review process for alcohol beverage labels by providing an expedient and paperless means of obtaining Federal label approval. The Bureau expanded the Pay.gov pilot to include all Federal excise taxpayers with the access to file and pay taxes electronically. This Project has been expanded to cover all of the roughly 4,000 taxpayers.

The reason for the yellow rating relates to the scoring for the enterprise architecture's program, which was based on the use of the Enterprise Architecture Assessment tool. The results for the bureau were below the required standards at the time of compilation of the FY 2004 scorecard. The bureau has since taken strategic steps to improve its enterprise architecture and we are confident that the program changes have now elevated the enterprise architecture score beyond the required standard level.

**Budget and Performance Integration Status "Yellow".**

TTB has worked extensively in defining its performance measures and continues to strive to identify the right measures and mix of measures that portray the best picture of the Bureau's operations and performance. TTB is working with a contractor to refine its outcome-oriented performance measures and align them with business processes and budget submissions.

# Performance Goals, Objectives, and Results

## Program Assessment Rating Tool (PART)

Program evaluation is a core management objective used by TTB to allocate resources and promote efficiency and effectiveness and is a vital part of TTB's efforts to meet strategic objectives. TTB is scheduled for its first PART review for the "Collect the Revenue" activity in the Spring of 2005. The Protect the Public Activity was subjected to a PART review before TTB became a Bureau.

### How TTB Uses Program Assessment Rating Tool (PART) Evaluations

Like the PMA, the PART process gives TTB a framework for assessing performance. The goal of the PART is to evaluate program deficiencies, determine the causes for strong or weak performance, and take action to remedy deficiencies and achieve better results. Through the use of in-depth performance questions, PART allows TTB to evaluate how well a program is meeting its intended objectives, how effectively and efficiently it is managed, and the extent to which the program supports overarching strategic goals. TTB's PART program evaluations are included to demonstrate actions that TTB has taken to improve program performance.

### PART Evaluation Criteria

All programs that undergo a PART evaluation receive weighted scores in four categories: program purpose and design; strategic planning; program

management; and program results and accountability.

| Categories                     | Weight |
|--------------------------------|--------|
| Program Purpose and Design     | 20%    |
| Strategic Planning             | 10%    |
| Program Management             | 20%    |
| Program Results/Accountability | 50%    |

OMB summarizes PART scores as a qualitative rating of effective, moderately effective, adequate, results not demonstrated or ineffective.

| Program                            | Bureau | Rating   | Date Completed      |
|------------------------------------|--------|----------|---------------------|
| Consumer Product Safety Activities | ATF    | Adequate | FY 2003             |
| Collect the Revenue                | TTB    | TBD      | Targeted in FY 2005 |

**PART Program Name:** Consumer Product Safety Activities

### Major Findings/ Recommendations

- Refine performance measures to more accurately reflect the goals and achievements of the program.

### Actions Taken

- TTB has developed and continues to refine its performance measures. The goal is to define the right measures and mix of measures.

# PART III

## Financial Results, Position and Condition

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### Budget Highlights by Fund Account

#### Overview

The FY 2004 Bureau budget of \$81,228,000 consists of direct appropriations of \$79,528,000 and offsetting collections of \$1,700,000 in reimbursable funding. The resources requested were critical to enforce the Federal laws and regulations relating to alcohol and tobacco by working directly and in cooperation with others. The Alcohol and Tobacco Tax and Trade Bureau (TTB) FY 2004 enacted appropriations was \$79,528,000 (authorized \$80,000,000 dollars less the across the board rescission of \$472,000). This amount maintains a program level consistent with the current level of effort necessary to support TTB's responsibility for revenue collection and enforcement of laws and regulations governing alcohol and tobacco commodities. Also during FY 2004 Congress authorized an additional \$201,000 from our unobligated FY 2003 balance to pay in FY 2004 for costs associated with the conversion and one time license costs of migrating from the former Bureau of Alcohol, Tobacco and Firearms accounting system to the Bureau of Public Debt Administrative Resource Center (BPD ARC) accounting system. In addition, the FY 2004 budget includes an estimate of \$1,700,000 in offsetting collections relating to necessary expenses for conducting the Puerto Rican enforcement operations. The bureau has obligated and or expended almost all of its direct appropriations, roughly 99.7% in FY 2004.

| Appropriations                                    | Salaries & Expenses |
|---|---------------------|
| FY 2004 Authorized                                | \$80,000,000        |
| Less: Across the Board Rescission                 | (\$472,000)         |
| FY 2004 Enacted Total Appropriated Resources      | \$79,528,000        |
| Offsetting Collections - Reimbursable (Actual)    | \$1,745,000         |
| FY 2004 Total Bureau Operating Level              | \$81,273,000        |
|   |                     |
| FY 2005 Consolidated Appropriations (H.R. 4818)   | \$83,000,000        |
| Less: Across the Board Rescission                 | (\$664,000)         |
| FY 2005 Enacted Total Appropriated Resources      | \$82,336,000        |
| Offsetting Collections - Reimbursable (Estimated) | \$1,700,000         |
| FY 2005 Total Bureau Operating Level              | \$84,036,000        |

## **Salaries and Expenses Account**

The FY 2004 request for Salaries and Expenses is \$79,528,000 and the full time equivalent staffing level (FTE) is 544 for direct appropriations and 15 for reimbursable, for a total staffing level of 559.

During FY 2004 a number of strategic IT investments were made in our core business applications to ensure that those systems would be operated more efficiently and better serve our industry members. TTB's transition from ATF's administrative and financial systems began in FY 2004, and on October 1, 2004 (beginning of FY 2005) the applications had been outsourced to BPD ARC. Additional migration work on the legacy financial systems relating to the federal excise taxes is still underway, and is fully expected to be finished during FY 2005.

TTB's transition from ATF's IT infrastructure was started in FY 2004 and is expected to be completed during FY 2005. TTB made a series of investments in IT during FY 2004 that made substantial contributions to our successful migration. By the way, in FY 2005 Congress did earmark and additional \$1,058,000 in resources to be used to facilitate this transfer. In the President's FY 2006 Budget an additional \$4,404,000 has been added to our base resources to cover all recurring costs necessary to ensure that the IT infrastructure of TTB is operating its core business applications.

## **Offsetting Collections and Reimbursable Accounts**

For FY 2004 the actual offsetting collections recovered relating to Puerto Rico operations were approximately \$1.3 million. All costs associated with the functioning and support of the Puerto Rico office are paid from the "cover-over" (return) which is offset from the roughly \$300 million in cover over taxes collected in the United States on products originating in Puerto Rico and the Virgin Islands. In Puerto Rico, TTB conducts annual audit/investigations of industry members regarding the collection of revenue, application processing and product integrity. Revenue inspections are used to conduct tax examinations on major producers of alcohol and tobacco. This is critical due to the requirements of verifying tax payments under the IRC and subsequent accountability of all cover-over amounts due the Puerto Rico government. All distilled spirits producers/processors, wineries, wholesalers, importers, Manufacturer of Non-Beverage Products claimants and Specially Denatured Alcohol permit applicants, including those in Puerto Rico, are subjected to a qualification inspection under the IRC. Additionally, major producers of distilled spirits, wine, and malt beverages are subjected to inspection and audits. Additionally, reimbursable activity with other Government entities was \$483,000.

# Financial Results, Position and Condition

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## Explanation of Budget Activities by Mission

### **Salaries and Expenses:**

#### ***Collect the Revenue***

The Collect the Revenue budget activity encompasses TTB's revenue strategy and goal to provide the most effective and efficient system for the collection of all revenue that is rightfully due; prevent or eliminate tax evasion and other criminal conduct; and provide high quality service while imposing the least regulatory burden. This program includes projects designed to allow taxpayers to report and pay excise taxes electronically; enable industry customers to access the Pay.Gov system; and consolidate the tax collection and reporting databases at the NRC into a single integrated state of the art system that will promote greater efficiency and reduce costs.

#### ***Protect the Public***

The Protect the Public budget activity encompasses TTB's strategy and goal to ensure compliance with laws and regulations by regulated industries by providing adequate information to the public as to the identity of alcohol beverages and preventing consumer deception. Under this activity, TTB enforces compliance with federal laws related to the production and distribution of alcohol products through education, inspection, investigation, and laboratory testing. TTB provides technical expertise, training, information, and research results to industry members, government agencies and others in order to better protect the public. TTB relies on innovation, partnerships, and open communication to ensure the safety of the public.

# Financial Results, Position and Condition

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## Systems and Controls

### Introduction

In FY 2004, TTB implemented a business strategy of separating its administrative support services from ATF, including its time and attendance, procurement, human resource, travel, property, accounting and financial management services. TTB's initial focus has been on transitioning the administrative functions, under a joint venture with the Treasury Department TTB succeeded in taking this first step in negotiating a reimbursable services agreement between TTB and the Bureau of the Public Debt's Administrative Resource Center (BPD ARC), which is part of Treasury's Franchise Fund, effective June 13, 2004. This agreement addresses all human resource services previously provided by ATF, including employee relations; staffing and recruitment; classification; personnel actions and payroll processing; employee benefits and retirement; personnel security; time and attendance; and drug testing.

### Accounting Systems and Controls

As part of the Homeland Security Act of 2002, TTB, formerly part of ATF has become an independent Bureau under the Department of the Treasury. ATF became part of the Department of Justice. At the beginning of October 1, 2004, TTB has formally separated their financial systems from the systems currently in place at ATF. It has been agreed that BPD ARC will provide TTB with outsourced support of their administrative and financial systems of record. During FY 2004 TTB was outsourced with ATF, while efforts were underway to transition completely under the umbrella of the Department of Treasury. TTB developed a multi phase conversion strategy that would essentially allow it to be operational on October 1, 2004 with BPD ARC under a full servicing agreement, while efforts were to continue to allow legacy data to be migrated under BPD into a new reporting repository. This conversion strategy is a three phase process designed to input data into BPD ARC's financial systems and reporting repositories. The three phases are as follows:

- Phase 1: This phase involved the conversion of data required to conduct business and reporting in Oracle Financials at the beginning of FY 2005.



- Phase 2: This phase involved the extraction of data from ATF's legacy accounting system where much of TTB's historical tax records were being maintained.
- Phase 3: The third phase of the overall conversion process involved the requirements analysis and extract of TTB's historical data from ATF's current accounting system. TTB is in the final stages of that migration as of March 2005.

Momentum, an American Management System's software package, was the primary automated financial system used in FY 2004 by ATF in providing accounting records and services to the bureau. This system supports the full range of financial management requirements, including the general ledger function, budget execution, travel, credit card purchases, third party, and Treasury payments. Momentum conforms to core requirements prescribed by the Joint Financial Management Improvement Program (JFMIP) and Treasury.

The BPD ARC accounting system known as Oracle Federal Financials (Version 11.5.9) is JFMIP certified and is in full compliance with Treasury reporting requirements. The BPD ARC organization has been selected as a Center of Excellence in OMB's financial line of business. The Bureau has migrated successfully to BPD ARC and is highly satisfied with the progress we have made to date in meeting Treasury's reporting requirements and in maintaining accurate and reliable financial information on TTB's financial activities.

## TTB Federal Managers' Financial Integrity Act (FMFIA)

The FMFIA requires Federal agencies to conduct ongoing evaluations of the adequacy of the systems of internal accounting and administrative control and report yearly to the President all material weaknesses found through these evaluations. The FMFIA also requires the heads of agencies to provide the President with yearly assurance that obligations and cost are in compliance with applicable laws; funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and revenues and expenditures are properly recorded and accounted for to maintain accountability over the assets. To provide this report and assurance to the President, the Secretary of the Treasury depends upon information from component heads regarding their management controls.

The FMFIA program places reliance on each office at TTB to maintain responsibility for a cost-effective system of controls to provide reasonable assurance that Government resources are protected against fraud, waste, abuse, mismanagement, or misappropriation. Responsibilities of the Bureau's Executive Staff include ensuring that programs and administrative support activities are managed efficiently and effectively. Managers must conform to specific management accountability and improvement policies when designing, planning, organizing, and carrying out their responsibilities in order to ensure the most efficient and effective operation of their programs. These policies address delegation of authority and responsibility, hierarchical reporting of emerging management problems, personal integrity, quality data, separation of key duties and responsibilities, periodic comparisons of actual with recorded accountability of resources, routine assessment of programs with a high potential for risk, systematic review strategy to assess the effectiveness of program operations, and prompt management actions to correct significant problems or improve operations. While TTB was being serviced by ATF, the Bureau adopted the policies in effect at ATF. TTB is now in the process of developing its own bureau-specific policies.

Management accountability systems must assure basic compliance with the objectives of the FMFIA and the management control standards set by the GAO. During FY 2004, the financial services and systems used to record TTB's financial activities were outsourced to the Bureau of Alcohol, Tobacco, Firearms and Explosives (ATF). ATF did pass an Annual Certification of its financial operations, systems, and controls and reports significant results to the Department of Justice. ATF reports this information to the Attorney General and must assure the Attorney General that its management systems incorporate at least the minimum control standards described in the Department guidance. During FY 2004 steps were taken to migrate from the ATF financial and administrative operating systems and platform to BPD ARC. In FY 2004, as well as for FY 2005 the BPD ARC will also provide an annual certification. In addition, any inspection, audit, evaluation, peer or program review process, self-assessment, or equivalent, used by TTB management to keep informed about needs and opportunities for improvement must incorporate these same standards into its methodology.

Increased emphasis on management controls has had a positive impact on programs achieving the intended results. This process also ensures that the utilization of resources is consistent with mission priorities and that program and resources are being used without waste, fraud, or mismanagement. TTB has planned and will begin office reviews during FY 2005 that will include a review of administrative and internal controls. The Bureau has also planned to develop an internal control checklist for operations at the National Revenue Center that will be used each year to ensure that administrative and internal controls are in effect and safeguards are in place to support our collection activities of nearly \$15 billion in federal excise taxes, as well as our regulatory responsibilities.

In summary, during FY 2004 we did not have any reportable conditions related to internal control and no reportable instances of noncompliance with laws and regulations that could have a direct and material effect on the financial statements, and we do not anticipate any for FY 2005. TTB provides a “reasonable assurance” that the objectives of FMFIA have been achieved and we are confident that we are in “substantial compliance” with the Federal Financial Management Improvement Act. This overall determination is based on past and current practices, improved controls environment, scrutiny by external audit sources, internal evaluations, and administrative and fiscal accounting system enhancements.

## Financial Results, Position and Condition

### Financial Statements, Accompanying Notes and Required Supplemental Information

#### Limitations of Financial Statements

The financial statements were prepared to report the financial position and results of operations pursuant to the requirements of 31 U.S.C. 3515(b). The unaudited bureau financial statements have been prepared from the books and records of TTB according to formats prescribed by the Office of Management and Budget (OMB). The statements are in addition to the financial reports used to monitor and control budgetary resources prepared from the same books and records. The unaudited bureau financial statements should be read with the realization that the information contained in the statements has been incorporated in the consolidated Department of the Treasury financial statements.

#### Management Responsibilities

Bureau management is responsible for the fair presentation of information contained in the principal financial statements, in conformity with generally accepted accounting principles (GAAP) and the form and content for entity financial statements specified by OMB in Bulletin 01-09. Management is also responsible for the fair representation of TTB's performance measures in accordance with OMB requirements. The quality of the Bureau's internal control structure rests with management, as does the responsibility for identification and compliance with pertinent laws and regulations.

## TTB in Relation to Treasury's Annual Financial Statements

The Department of Treasury is one of twenty-three federal agencies that are required by Federal law to produce annual audited financial statements. The Alcohol and Tobacco Tax and Trade Bureau's (TTB) financial activities are an integral part of the information reported on by the Department of the Treasury. On November 12, 2004 the independent auditor's report was issued expressing an unqualified opinion on the Treasury Department's financial statements. This means that the financial information presented by the Department of the Treasury, which includes the financial activity related to this bureau, was presently fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. The report did not disclose any material weaknesses on internal controls or reportable conditions on TTB. For purposes of the TTB's Performance and Accountability Report we have included "unaudited" financial information that pertains exclusively to TTB, as a separate entity, and can be used as a useful tool in understanding the financial operations of TTB. Although these statements are not independently audited the information should be viewed as reliable and accurate information from management's perspective on the bureau's financial operations. Fiscal 2004 was TTB's first full year of operations. For that reason, comparative financial statements were not presented.

**DEPARTMENT OF THE TREASURY  
ALCOHOL AND TOBACCO TAX AND TRADE BUREAU  
BALANCE SHEET (Unaudited)  
As of September 30, 2004**

|  |           | <b>2004</b>           |
|--|-----------|-----------------------|
|  |           | <i>(In Thousands)</i> |
| <b>ASSETS</b>                              |           |                       |
| <b>Intragovernmental Assets:</b>           |           |                       |
| Fund Balance with Treasury                 | (Note 2)  | \$ 24,247             |
| Accounts Receivable                        | (Note 4)  | 483                   |
| Due from the General Fund                  | (Note 6)  | 6,686                 |
| Prepayments                                | (Note 8)  | 394                   |
| <b>Total Intragovernmental Assets</b>      |           | 31,810                |
| Cash and Other Monetary Assets             | (Note 3)  | 3,781                 |
| Tax and Trade Receivables, Net             | (Note 5)  | 9,928                 |
| Accounts Receivable, Net                   | (Note 4)  | 354                   |
| Propert, Plant and Equipment, Net          | (Note 7)  | 3,159                 |
| Prepayments                                | (Note 8)  | 6                     |
| <b>TOTAL ASSETS</b>                        |           | \$ 49,038             |
| <b>LIABILITIES</b>                         |           |                       |
| <b>Intragovernmental Liabilities:</b>      |           |                       |
| Accounts Payable                           |           | \$ 4,521              |
| Accrued Unfunded FECA Liabilities          |           | 22                    |
| Due to the General Fund                    | (Note 5)  | 9,928                 |
| <b>Total Intragovernmental Liabilities</b> |           | 14,471                |
| Accounts Payable                           |           | 2,298                 |
| Accrued Funded Payroll Benefits            |           | 1,540                 |
| Unfunded FECA Actuarial Liability          |           | 38                    |
| Accrued Refunds                            | (Note 6)  | 6,686                 |
| Accrued Unfunded Leave                     |           | 2,902                 |
| Lease Liability                            | (Note 10) | 145                   |
| Other Liabilities                          | (Note 11) | 3,781                 |
| <b>TOTAL LIABILITIES</b>                   |           | \$ 31,861             |
| <b>NET POSITION</b>                        |           |                       |
| Unexpended Appropriations                  |           | \$ 16,712             |
| Cumulative Results of Operations           |           | 465                   |
| <b>TOTAL NET POSITION</b>                  |           | 17,177                |
| <b>TOTAL LIABILITIES AND NET POSITION</b>  |           | \$ 49,038             |

**DEPARTMENT OF THE TREASURY  
ALCOHOL AND TOBACCO TAX AND TRADE BUREAU  
STATEMENT OF NET COST (Unaudited)  
For the Year Ended September 30, 2004**

**2004**

*(In Thousands)*

**COSTS:**

**PROTECT THE PUBLIC**

**Program Costs**

|  |           |    |        |
|--|-----------|----|--------|
| Intragovernmental gross costs          |           | \$ | 9,666  |
| Less: Intragovernmental earned revenue |           |    | -      |
| Intragovernmental net costs            |           |    | 9,666  |
| <br>                                   |           |    |        |
| Gross costs with the public            |           |    | 14,389 |
| Less: Earned revenues from the public  | (Note 15) |    | (241)  |
| Net costs with the public              |           |    | 14,148 |
| <br>                                   |           |    |        |
| Total Net Cost                         |           | \$ | 23,814 |

**COLLECT THE REVENUE**

**Program Costs**

|  |           |    |        |
|--|-----------|----|--------|
| Intragovernmental gross costs          |           | \$ | 22,080 |
| Less: Intragovernmental earned revenue | (Note 15) |    | (483)  |
| Intragovernmental net costs            |           |    | 21,597 |
| <br>                                   |           |    |        |
| Gross costs with the public            |           |    | 32,651 |
| Less: Earned revenues from the public  | (Note 15) |    | (842)  |
| Net costs with the public              |           |    | 31,809 |
| <br>                                   |           |    |        |
| Total Net Cost                         |           | \$ | 53,406 |

**Costs Not Assigned to Programs**

-

**Less: Earned revenues not attributed to programs**

-

**NET COST OF OPERATIONS**

\$ 77,220

**DEPARTMENT OF THE TREASURY  
ALCOHOL AND TOBACCO TAX TRADE BUREAU  
STATEMENT OF CHANGES IN NET POSITION (Unaudited)  
For the Year Ended September 30, 2004**

|   | <b>2004</b>             |
|---|-------------------------|
|   | <i>(In Thousands)</i>   |
| <b>OPERATIONS</b>   |                         |
| Beginning Balances  | \$ (40)                 |
| Prior period adjustments                                  | -                       |
| Beginning Balances, as adjusted                           | <u>(40)</u>             |
| <b>Budgetary Financing Sources</b>                        |                         |
| Appropriations Used                                       | 73,990                  |
| <b>Other Financing Sources</b>                            |                         |
| Imputed financing from costs absorbed by others (Note 14) | 3,735                   |
| <b>Total Financing Sources</b>                            | <u>77,725</u>           |
| <b>Net Cost of Operations</b> (Note 15)                   | <u>(77,220)</u>         |
| <b>Net Position From Operations</b>                       | \$ 465                  |
| <b>UNEXPENDED APPROPRIATIONS</b>                          |                         |
| Beginning Balances  | \$ 11,174               |
| Prior period adjustments                                  | -                       |
| Beginning Balances, as adjusted                           | <u>11,174</u>           |
| <b>Budgetary Financing Sources</b>                        |                         |
| Appropriations Received                                   | 80,000                  |
| Other adjustments - re-appropriations                     | (472)                   |
| Appropriations Used                                       | <u>(73,990)</u>         |
| <b>Total Financing Sources</b>                            | 5,538                   |
| <b>Net Position of Unexpended Appropriations</b>          | \$ 16,712               |
| <b>TOTAL NET POSITION</b>                                 | <u><u>\$ 17,177</u></u> |



**DEPARTMENT OF THE TREASURY**  
**ALCOHOL AND TOBACCO TAX AND TRADE BUREAU**  
**STATEMENT OF BUDGETARY RESOURCES (Unaudited)**  
**For the Year Ended September 30, 2004**

**2004**

*(In Thousands)*

|  |           |                  |
|--|-----------|------------------|
| <b>BUDGETARY RESOURCES</b>                     | (Note 16) |                  |
| Budget Authority                               |           |                  |
| Appropriations Received                        | \$        | 80,000           |
| Unobligated Balance - Beginning of Period      |           |                  |
| Beginning of Period                            |           | 1,214            |
| Spending Authority from Offsetting Collections |           |                  |
| Earned   |           |                  |
| Collected                                      |           | 873              |
| Receivable from Federal sources                |           | 755              |
| Change in unfilled customer orders             |           |                  |
| Without advance from Federal sources           |           | 117              |
| Subtotal                                       |           | 1,745            |
| Recoveries of prior year obligations           |           | 1,659            |
| Permanently not available                      |           | (472)            |
| <b>TOTAL BUDGETARY RESOURCES</b>               |           | <u>\$ 84,146</u> |

**STATUS OF BUDGETARY RESOURCES**

|                                   |           |                  |
|-----------------------------------|-----------|------------------|
| Obligations Incurred:             | (Note 17) |                  |
| Direct                            | \$        | 81,773           |
| Reimbursable                      |           | 1,706            |
| Subtotal                          |           | <u>83,479</u>    |
| Unobligated Balance:              |           |                  |
| Apportioned                       |           | 307              |
| Unobligated Balance not available |           | 360              |
| <b>TOTAL BUDGETARY RESOURCES</b>  |           | <u>\$ 84,146</u> |

**RELATIONSHIP OF OBLIGATIONS TO OUTLAYS:**

|  |    |                  |
|--|----|------------------|
| Obligated Balance, Net - Beginning of the Period | \$ | 12,596           |
| Obligated Balance, Net - End of the Period       |    |                  |
| Accounts receivable                              |    | (825)            |
| Unfilled customer orders from federal sources    |    | (357)            |
| Undelivered orders                               |    | 16,403           |
| Accounts payable                                 |    | 8,359            |
| Outlays  |    |                  |
| Disbursements                                    |    | 69,963           |
| Collections                                      |    | (873)            |
| Subtotal   |    | 69,090           |
| Less: Offsetting receipts                        |    | (3)              |
| <b>NET OUTLAYS</b>                               |    | <u>\$ 69,087</u> |

**DEPARTMENT OF THE TREASURY  
ALCOHOL AND TOBACCO TAX AND TRADE BUREAU  
STATEMENT OF FINANCING (Unaudited)  
For the Year Ended September 30, 2004**

|   | <b>2004</b>           |
|---|-----------------------|
|   | <i>(In Thousands)</i> |
| <b>Resources Used to Finance Activities</b>   |                       |
| <b>Budgetary Resources Obligated</b>  |                       |
| Obligations Incurred  | \$ 83,479             |
| Less: Spending authority from offsetting collections and recoveries   | (3,405)               |
| Obligations net of offsetting collections and recoveries  | 80,074                |
| Less: Offsetting receipts   | (3)                   |
| Net Obligations   | <u>80,071</u>         |
| <b>Other Resources</b>  |                       |
| Donations and forfeitures of property   | -                     |
| Transfers in/out without reimbursement (+/-)  | -                     |
| Imputed financing from costs absorbed by others (Note 14)   | 3,735                 |
| Other (+/-)   | -                     |
| Net other resources used to finance activities  | <u>3,735</u>          |
| <b>Total Resources Used to Finance Activities</b>   | <b>\$ 83,806</b>      |
| <br><b>Resources Used to Finance Items not Part of the Net Cost of Operations</b>                                   |                       |
| Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided (+/-)         | \$ 6,484              |
| Resources that Fund Expenses Recognized in Prior Periods  | 405                   |
| Budgetary offsetting collections and receipts that do not affect net cost of operations                             | (3)                   |
| Other   |                       |
| Resources that finance the acquisition of assets  | 1,294                 |
| Other resources or adjustments to net obligated resources that do not affect net cost of operations (+/-)           | -                     |
| <b>Total Resources Used to Finance Items not Part of the Net Cost of Operations</b>                                 | <b>\$ 8,180</b>       |
| <br><b>Total Resources Used to Finance the Net Cost of Operations</b>   | <br><b>\$ 75,626</b>  |
| <br><b>Components of the Net Cost of Operations Requiring or Generating Resources in Future Periods</b>             |                       |
| <b>Components Requiring or Generating Resources in Future Periods:</b>  |                       |
| Increase in annual leave liability  | \$ 780                |
| Increase in exchange revenue receivable from the public   | (3)                   |
| Other (+/-)   | <u>183</u>            |
| <b>Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods</b>         | <b>\$ 960</b>         |
| <br><b>Components of the Net Cost of Operations not Requiring or Generating Resources</b>                           |                       |
| Depreciation and Amortization   | \$ 602                |
| Revaluation of assets or liabilities (+/-)  | 24                    |
| Other   | <u>8</u>              |
| <b>Total Components of Net Cost of Operations that will not Require or Generate Resources in the Current Period</b> | <b>\$ 634</b>         |
| <br><b>NET COST OF OPERATIONS</b>   | <br><b>\$ 77,220</b>  |

**DEPARTMENT OF THE TREASURY  
ALCOHOL AND TOBACCO TAX AND TRADE BUREAU  
STATEMENT OF CUSTODIAL ACTIVITY (Unaudited)  
For the Year Ended September 30, 2004**

**2004**

*(In Thousands)*

|   |                             |
|---|-----------------------------|
| <b>SOURCES OF CUSTODIAL REVENUE</b>             | (Note 18)                   |
| <b>Revenue Received</b>                         |                             |
| Excise Taxes                                    | \$ 14,744,961               |
| Interest  | 249                         |
| Penalties and Fines                             | 932                         |
| Other Custodial Revenue                         | 3                           |
| <b>Total Revenue Received</b>                   | (Note 19) <u>14,746,145</u> |
| Refunds   | (Note 19) <u>(372,231)</u>  |
| <b>Net Revenue Received</b>                     | <u>14,373,914</u>           |
| Acruel Adjustment                               | 3,341                       |
| <b>Total Source of Custodial Revenue</b>        | <u>\$ 14,377,255</u>        |
| <b>DISPOSITION OF CUSTODIAL REVENUE</b>         |                             |
| Amounts Provided to Non-Federal Entities        | 341,536                     |
| Amounts Provided to Fund the Federal Government | 14,032,378                  |
| Acruel Adjustment                               | 3,341                       |
| <b>Total Disposition of Custodial Revenue</b>   | <u>\$ 14,377,255</u>        |
| <b>NET CUSTODIAL REVENUE ACTIVITY</b>           | <u>\$ -</u>                 |

# Financial Results, Position and Condition

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## Notes to the Financial Statements

### **Note 1. Summary of Significant Accounting Policies**

#### **A. Reporting Entity**

The Alcohol and Tobacco Tax and Trade Bureau (TTB) was established on January 24, 2003, as a result of the Homeland Security Act of 2002. The Act transferred firearms, explosives, and arson functions of the Bureau of Alcohol, Tobacco and Firearms (ATF) to the Department of Justice and retained the tax collection and consumer protection provisions of the Internal Revenue Code (IRC) and Federal Alcohol Administration Act in TTB within the Department of the Treasury. While the agency has a new name, the history of TTB's regulatory responsibility dates back to the creation of the Department of the Treasury and the first federal taxes being levied on distilled spirits in 1791. TTB collects alcohol, tobacco, firearms, and ammunition excise taxes, protects the consumer by ensuring that alcohol beverages are labeled, advertised, and marketed in accordance with the law, and facilitates trade in beverage and industrial alcohols. TTB's first full year of operation is FY 2004. Because TTB did not operate for a full fiscal year in 2003, comparative financial statements are not being presented.

#### **B. Basis of Presentation**

The financial statements were prepared to report the significant assets, liabilities, and net cost of operations, changes in net position, budgetary resource, and custodial activities of TTB. The financial statements have been prepared from the books and records of TTB in conformity with accounting principals generally accepted in the United States of America (GAAP), form and content for entity financial statements specified by the Office of Management and Budget (OMB) in OMB Bulletin 01-09, and guidance issued by the Treasury Department. TTB's accounting policies are summarized in this note. GAAP for Federal entities is primarily the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB), which has been designated the official accounting standards-setting body for the Federal Government by the American Institute of Certified Public Accountants. GAAP also includes Financial Accounting Standards Board (FASB) statements and concepts, Accounting Principles Board Opinions as well as OMB, Government Accountability Office, and agency guidance.

## **C. Basis of Accounting**

Transactions are recorded on a proprietary accrual and a budgetary basis of accounting. Under the accrual basis, revenues are recorded when earned and expenses are recorded when incurred, regardless of when cash is exchanged. However, under the budgetary basis, funds availability is recorded based upon legal considerations and constraints. As a result, certain line items on the proprietary statements may not equal similar lines on the budgetary financial statements. Examples include, but are not limited to the following:

- Total accounts receivable on the Balance Sheet may not equal accounts receivable on the Statement of Budgetary Resources because receivables due from the public are presented on the Balance Sheet but not on the Statement of Budgetary Resources; and
- Total accounts payable on the Balance Sheet may not equal accounts payable on the Statement of Budgetary Resources because certain funded liabilities are presented separately on the Balance Sheet but included aggregately on the Statement of Budgetary Resources.

## **D. Revenues and Other Financing Sources**

### **(1) Exchange Revenue**

Exchange Revenues are inflows of resources to a Government entity that the entity has earned by providing something of value to the public or another Government entity at a price.

TTB primarily provides services to two entities, the Government of Puerto Rico and ATF. TTB maintains operations in Puerto Rico primarily to enforce laws and regulations on alcohol products. TTB also provides lab services and tax collection services to ATF.

### **(2) Non-exchange Revenue**

Non-exchange revenues are inflows of resources that the government demands or receives by donation. For TTB, most non-exchange revenues result from collecting taxes on alcohol and tobacco products.

### **(3) Financing Sources**

Financing sources provide inflows of resources during the reporting period and include appropriations used and imputed financing. Unexpended appropriations are recognized separately in determining net position, but are not financing sources until used. Imputed financing sources are the result of other Federal entities financing costs on behalf of TTB.

TTB receives the majority of the funding needed to support the Bureau through Congressional appropriations. The appropriations received are annual and multi-year funding that may be used, within statutory limits, for operating and capital expenditures. The multi year funding was a special Congressional authorization that allowed the bureau to use 50% of the unobligated funds remaining at year-end of FY 2003. The funds were made available in FY 2004 and were designated FY 2003/2004 funding.

#### **E. Fund Balance with Treasury and Cash**

The Fund Balance with Treasury is the undisbursed account balance with the Treasury, primarily resulting from undisbursed appropriations. The balance is available within statutory limits to pay current liabilities and finance authorized purchase obligations. Cash is a non-entity balance with Treasury, primarily the result of collecting escrow payments designed to finance offers-in-compromise and cash bonds held in lieu of corporate surety bonds guaranteeing payment of taxes.

#### **F. Accounts Receivable**

Intragovernmental accounts receivable consist of amounts due under reimbursable agreements with Federal entities for services provided by TTB. Public accounts receivable consist of taxes, penalties, and interest that have been assessed but unpaid at year-end.

Receivables due from Federal agencies are considered to be fully collectible. An allowance for doubtful accounts is established for public receivables based on specific identification and individual analysis.

#### **G. General Property, Plant and Equipment**

Property, plant and equipment purchased with a cost greater than or equal to \$25,000 per unit and a useful life for two years or more, is capitalized and depreciated. Other equipment is expensed when purchased. Normal repairs and maintenance are charged to expense as incurred.

TTB also capitalizes software when the unit price equals \$25,000 or the bulk purchase price or aggregate development costs are greater than or equal to \$500,000. The same threshold will also apply to enhancements that add significant functionality to the software. TTB will amortize this software based on its classification. The classifications are as follow: (1) Enterprise and other business software; 5 years, and (2) Personal productivity and desktop operating software; 3 years.

Assets are depreciated on a straight-line basis beginning the month the asset was put in to use.

## **H. Prepayments**

Prepayments are payments made to cover certain periodic expenses before those expenses are incurred. In accordance to Public Law 91-614, TTB participated in the Treasury's Working Capital Fund for which it receives payments on a reimbursable basis. Payments made in advance are authorized for services that have been deemed as more advantageous and more economical when provided centrally. The services provided include those for telecommunications, payroll/personnel systems, printing and other central services. The amount reported represents the balance available at the end of the fiscal year after charges/expenses incurred by the fund are deducted.

## **J. Non-entity Assets**

Non-entity assets consist primarily of receivables for excise taxes and fees that are to be distributed to the Treasury, other Federal agencies and other governments. Non-entity assets are not considered a financing source (revenue) available to offset operating expenses of TTB.

## **K. Liabilities**

Liabilities represent the amount of monies, or other resources, that are likely to be paid by TTB as the result of a transaction or event that has already occurred. However, no liability can be paid by TTB absent an appropriation. Liabilities for which an appropriation has not been enacted and for which there is uncertainty an appropriation will be enacted are classified as liability not covered by budgetary resources. Also, the Government, acting in its sovereign capacity, can abrogate liabilities of TTB that arise from other than contracts.

Intergovernmental liabilities consists of amounts payable to the Treasury for collections of excise tax, fees receivable, payment to other Federal agencies, and accrued Federal Employees' Compensation Act (FECA) charges. Liabilities also include amounts due to be refunded to taxpayers, as well as amounts held in escrow for offers-in-compromise and cash bonds held in guaranteeing payment of taxes.

## **L. Litigation Contingencies and Settlements**

Probable and estimable litigation and claims against TTB are recognized as a liability and expense for the full amount of the expected lost. Expected litigation and claim losses include settlements to be paid from the Treasury Judgment Fund (Judgment Fund) on behalf of TTB and settlements to be paid from Bureau

appropriations. The Judgment Fund pays claims in excess of \$2,500. Settlements paid from the Judgment Fund for TTB are recognized as an expense and imputed financing source. The Bureau had no litigation of a material amount pending.

#### **M. Annual, Sick, and Other Leave**

Annual and compensatory leave earned by TTB employees, but not yet used, is reported as an accrued liability. The accrued balance is adjusted annually to current pay rates. Any portions of the accrued leave, for which funding is not available, are recorded as an unfunded liability. Sick and other leave are expensed as taken.

#### **N. Interest on Late Payments**

Pursuant to the prompt payment Act, 31U.S.C. & 3901-3907, Federal agencies must pay interest on payments for goods or services made to business concerns after their due date. The due date is generally 30 days after receipt of a proper invoice or acceptance of the goods or services.

#### **O. Retirement Plan**

Most TTB employees hired prior to January 1, 1984 participate in the Civil Service Retirement System (CSRS), to which TTB contributes 8.51 percent of basic pay. On January 1, 1984, the Federal Employees' Retirement System (FERS) went in to effect pursuant to public law 99-335. Employees hired after December 31, 1983 are automatically covered by FERS and Social Security. For most employees hired after December 31, 1983, TTB also contributes the employers' matching share of Social Security. For the FERS basic benefit, employees contribute .8 percent of basic pay while TTB contributes 10.7 percent, for a total contribution rate of 11.5 percent in FY 2004. The cost of providing a FERS basic benefit, as provided by the office of Personnel Management (OPM), is equal to the amounts contributed by TTB and the employees, because the plan is fully funded.

All employees are eligible to contribute to the Thrift Savings Plan (TSP). For those employees participating in the FERS, a TSP account is automatically established and TTB makes a mandatory 1 percent contribution to this account. In addition, TTB makes matching contributions, ranging from 1 to 4 percent, for FERS-eligible employees who contribute to their TSP accounts. Matching contributions are not made to the TSP accounts established by CSRS employees.

TTB recognized the full cost of providing future pension and other retirement benefits (ORB) for current employees as required by SFFAS No. 5. Full cost includes pension and ORB contributions paid out of Bureau appropriations and



cost financed by the OPM. Costs financed by the OPM are reported in the accompanying financial statements as an imputed financing revenue source. Reporting amounts such as plan assets, accumulated plan benefits or unfunded liabilities, if any, is the responsibility of the OPM.

#### **P. Federal Employees' Compensation Act**

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to covered federal civilian employees injured on the job and employees who have incurred a work-related injury or occupational disease. The future workers' compensation estimates were generated from an application of actuarial procedures developed to estimate the liability for FECA benefits. The actuarial liability estimates for FECA benefits include the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. The liability is determined using the paid losses extrapolation method, which is calculated over the next 37-year period. This method utilizes historical benefit patterns related to a specific incurred period to predict ultimate payments related to that period.

The Department of Labor (DOL) pays claims for TTB employees from the FECA fund, for which TTB reimburses DOL. The accrued liability represents claims paid by DOL for TTB employees, for which the fund has not been reimbursed. The actuarial liability is an estimate of future costs to be paid on claims made by TTB employees. The estimated future cost is not obligated against budgetary resources until the year in which the cost is billed to TTB.

#### **Q. Use of Estimates**

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, as well as the disclosure of contingent liabilities at the date of the financial statements, and the amount of revenues and cost reported during the period. Actual results could differ from those estimates.

## Note 2. Fund Balance with Treasury

Fund Balance with Treasury as of September 30, 2004 consisted of the following (in thousands):

Status of Fund Balances:

|                                     |                  |
|-------------------------------------|------------------|
| Unobligated Balance - Available     | \$ 307           |
| Unobligated Balance - Unavailable   | 360              |
| Obligated Balance not yet Disbursed | <u>23,580</u>    |
| Total Status of Fund Balances       | <u>\$ 24,247</u> |

All fund balances are from appropriated funds.

## Note 3. Cash, Foreign Currency and Other Monetary Assets

Cash as of September 30, 2004 consisted of the following (in thousands):

Cash Collected for:

|                      |                 |
|----------------------|-----------------|
| Bond Liabilities     | \$ 3,778        |
| Offers-in-compromise | <u>3</u>        |
| Total Cash           | <u>\$ 3,781</u> |

The bond liability represents cash payments made to the Bureau by taxpayers, in lieu of obtaining corporate surety bonds, guaranteeing payment of taxes. Offers-in-compromise are payments made to the Bureau, being held in escrow, to finance offers from taxpayers to settle their tax debt at less than the assessed amount.

## Note 4. Accounts Receivable, Net

Accounts Receivable as of September 30, 2004 consisted of the following (in thousands):

|                           |               |
|---------------------------|---------------|
| Intragovernmental         |               |
| ATF                       | \$ 483        |
| Total Intragovernmental   | <u>\$ 483</u> |
| With the Public           |               |
| Government of Puerto Rico | \$ 341        |
| Employees                 | <u>13</u>     |
| Total with the Public     | <u>\$ 354</u> |

No allowance for doubtful accounts has been recognized, nor has any accounts been written off. All intragovernmental accounts receivable are 100% collectible. Additionally, other non-federal receivables consist of a receivable from the government of Puerto Rico, which is 100% collected via an offset to the Coverover payments the Bureau remits to Puerto Rico, and employee accounts receivable which can be collected via salary offsets.

**Note 5. Tax and Trade Receivables, Net**

Tax and Trade Receivables as of September 30, 2004 consisted of the following (in thousands):

|   |                     |
|---|---------------------|
| Taxes Receivable                                    | \$ 123,985          |
| Interest Receivable                                 | 25,296              |
| Penalties, Fines and Administrative Fees Receivable | <u>16,163</u>       |
| Total Tax and Trade Receivables                     | 165,444             |
| Allowance for Doubtful Accounts                     | <u>(155,516)</u>    |
| Total Tax and Trade Receivables, Net                | <u><u>9,928</u></u> |

All Tax and Trade receivables are non-entity assets. An allowance for uncollectible amounts has been established based on: 1) an analysis of individual receivable balances, and 2) the application of historical non-collection rates for similar types of receivables. The large allowance is the result of current laws governing the collection period for these tax assessments. In accordance with 26 U.S.C. 6502, taxes are collectible for 10 years from the date the taxes were assessed. For this reason, aged receivables that are not likely to be collected, have been offset with an allowance but not written off.

**Note 6. Due from the General Fund**

In addition to collecting taxes from the alcohol and tobacco industries, the Bureau is also responsible for paying refunds, when applicable, to those same industry members. Amounts due from the General Fund represents a receivable from appropriations to cover the Bureau’s accrued refund liability.

## Note 7. General Property, Plant and Equipment (PP&E)

General Property, Plant and Equipment as of September 30, 2004 consisted of the following (in thousands):

|                            | Service<br>Life (Years) | Acquisition<br>Value | Accumulated<br>Depreciation | Net<br>Book Value |
|----------------------------|-------------------------|----------------------|-----------------------------|-------------------|
| ADP Software               | 3                       | \$ 2,454             | \$ 352                      | \$ 2,102          |
| Equipment                  | 2 - 10                  | 2,986                | 2,375                       | 611               |
| Leasehold Improvements     | 2 - 5                   | 300                  | 4                           | 296               |
| Assets Under Capital Lease | 3 - 6                   | 208                  | 58                          | 150               |
| Total PP&E                 |                         | <u>\$ 5,948</u>      | <u>\$ 2,789</u>             | <u>\$ 3,159</u>   |

Depreciation and amortization are calculated using the straight-line method.

## Note 8. Prepayments

Intragovernmental prepayments consist of the balances paid to Treasury's working capital fund, which have not yet been earned and billed by the fund. The prepayment with the public is the balance in a commercial account that was established to administer the on-the-spot award program utilizing debit cards.

## Note 9. Non-entity Assets

The Bureau has total assets valued at \$49.0 million, of which \$20.4 million are non-entity assets. Below is a detailed breakout of the non-entity assets.

Non-entity assets as of September 30, 2004 consisted of the following (in thousands):

|  |                             |
|--|-----------------------------|
| Intragovernmental Non-entity Assets        |                             |
| Due from the General Fund                  | \$ 6,686                    |
| Total Intra-governmental Non-entity Assets | <u>6,686</u>                |
| Cash and Other Monetary Assets             | 3,781                       |
| Tax and Trade Receivables, Net             | <u>9,928</u>                |
| Total Non-Entity Assets                    | <u>20,395</u>               |
| <br>Total Entity Assets                    | <br>28,643                  |
| <br>Total Assets                           | <br><u><u>\$ 49,038</u></u> |

## Note 10. Leases

- Future Capital Lease Payments**

The Bureau has entered into five lease agreements, for photocopiers, which meet the requirements to be considered a capital lease. Assets acquired by capital lease agreement are reported on the accompanying Balance Sheet based on the lesser of the present value of the future minimum payments or the fair market value of the asset. Imputed interest rates, used to compute the present value of future lease payment, range from 1.4 to 13.9 percent. The capital lease liability is expected to be funded from future sources and is considered a component of the other liabilities not covered by budgetary resources.

Leases as of September 30, 2004 consisted of the following (in thousands):

### Capital Leases

#### Summary of Assets Under Capital Lease:

|                          |               |
|--------------------------|---------------|
| Equipment                | 208           |
| Accumulated Amortization | (58)          |
| Total                    | <u>\$ 150</u> |

Future minimum lease payments for capital leases on equipment as of September 30, 2004, are as follows:

#### Future Payments Due:

| Fiscal Year                 | <u>Equipment</u> |
|-----------------------------|------------------|
| 2005                        | \$ 45            |
| 2006                        | 45               |
| 2007                        | 45               |
| 2008                        | 19               |
| 2009                        | -                |
| After 2009                  | -                |
| Subtotal                    | <u>154</u>       |
| Less: Imputed Financing     | <u>(9)</u>       |
| Net Capital Lease Liability | <u>\$ 145</u>    |

- Future Operating Lease Payments**

The bureau leases various copiers, fax machines, and vehicles under agreements accounted for as operating leases.

Future commitments under operating leases for equipment as of September 30, 2004, are as follows:

Future Operating Lease Payments Due:

| Fiscal Year                 | <u>Equipment</u> |
|-----------------------------|------------------|
| 2005                        | \$ 29            |
| 2006                        | 24               |
| 2007                        | 20               |
| 2008                        | 20               |
| 2009                        | 20               |
| After 2009                  | <u>20</u>        |
| Total Future Lease Payments | <u>\$ 133</u>    |

**Note 11. Other Liabilities**

Other Liabilities as of September 30, 2004 consisted of the following (in thousands):

|                                       |                 |
|---------------------------------------|-----------------|
| Total Intragovernmental               | <u>\$ -</u>     |
| Cash Bond Liabilities                 | \$ 3,778        |
| Offers in Compromise not yet Accepted | <u>3</u>        |
| Total Other Liabilities               | <u>\$ 3,781</u> |

All Other Liabilities are considered current liabilities.

**Note 12. Liabilities Not Covered by Budgetary Resources**

The Bureau's total liabilities were \$31.9 million, of which \$3.1 million were not covered by budgetary resources. Below is a detailed break out of liabilities not covered by budgetary resources.

Liabilities not Covered by Budgetary Resources as of September 30, 2004 consisted of the following (in thousands):

|   |                         |
|---|-------------------------|
| Intragovernmental                                       |                         |
| Accrued FECA Liability                                  | \$ 22                   |
| Total Intragovernmental                                 | <u>22</u>               |
| FECA Actuarial Liability                                | 38                      |
| Accrued Leave   | 2,902                   |
| Capital Lease Liability                                 | <u>145</u>              |
| Total Liabilities Not Covered By<br>Budgetary Resources | 3,107                   |
| Total Liabilities Covered by Budgetary Resources        | 28,753                  |
| Total Liabilities                                       | <u><u>\$ 31,860</u></u> |

### **Note 13. Future Funding Requirements**

Total liabilities not covered by budgetary resources generally do not equal the total financing sources yet to be provided on the Consolidated Statement of Financing. The amounts reported on the Balance Sheet are period ending balances, while the amounts reported on the Statement of Financing are activity for the period.

Generally, liabilities not covered by budgetary resources require future funding and can only be liquidated with the enactment of future appropriations. These liabilities include accrued leave, actuarial liabilities, contingent liabilities, and the net present value of future lease payments.

## Note 14. Imputed Financing

Imputed Financing as of September 30, 2004 consisted of the following (in thousands):

|                         |                 |
|-------------------------|-----------------|
| Health Insurance        | \$ 1,837        |
| Life Insurance          | 5               |
| Pension                 | 1,391           |
| Treasury Franchise Fund | 502             |
| Total Imputed Financing | <u>\$ 3,735</u> |

Imputed financing recognizes actual cost of future benefits to be paid by other Federal entities. These benefits include Federal Employees Health and Benefits Program (FEHBP), Federal Employees Group life Insurance Program (FEGLI), and pensions. Imputed financing also recognizes cost to be paid by the Judgment Fund. The Fund was established and funded by Congress under 31 U.S.C. 1304 to pay in whole or part court judgments and settlement agreements negotiated by Treasury on behalf of agencies, as well as certain types of administrative awards. The Judgment Fund did not pay out any awards on TTB's behalf during FY04.

SFFAS No. 5, "Accounting for Liabilities of the Federal Government," requires that employing agencies recognize the cost of pensions and other retirement benefits during their employees' active years of service. TTB does not report CSRS assets, FERS assets, accumulated plan benefits, or unfunded liabilities, if any, applicable to retirement plans because the accounting for and reporting of such amounts is the responsibility of OPM. Based on cost factors provided by OPM, estimated future pension benefits for TTB employees, to be paid by OPM, totaled \$1.4 million. Similarly, OPM rather than TTB, reports liabilities for future payments to retired employees who participate in the FEHBP and FEGLI programs. The FY 2004 FEHBP cost factor applied to a weighted average number of employees enrolled in the FEHBP is \$4,419, which produced a \$ 1.8 million imputed cost. The FY 2004 FEGLI cost factor for employees enrolled in the FEGLI program, as provided by OPM, is .02 percent of their basic pay. The FEGLI amount totaling \$5,000 is also included as an expense and imputed financing source in TTB financial statements for FY 2004.

The Treasury Franchise Fund absorbed approximately \$502,000 in costs related to TTB transitioning its administrative services from ATF to the Bureau of Public Debt's Administrative Resource Center (ARC). The costs primarily related to licensing fees paid for by the Franchise Fund for TTB's software applications on the ARC platform.



**Note 15. Consolidated Gross Cost and Earned Revenue by Budget Functional Classification**

Consolidated Gross Cost and Earned Revenue by Budget Function Classification

| Budget Function Classification       |     | Gross Costs      | Earned Revenue    | Net Costs        |
|--------------------------------------|-----|------------------|-------------------|------------------|
| Fiscal Year Ended September 30, 2004 |     |                  |                   |                  |
| Central Fiscal Operations            | 803 | <u>\$ 78,786</u> | <u>\$ (1,566)</u> | <u>\$ 77,220</u> |

Intragovernmental Gross Cost and Earned Revenue by Budget Function Classification

| Budget Function Classification       |     | Gross Costs      | Earned Revenue  | Net Costs        |
|--------------------------------------|-----|------------------|-----------------|------------------|
| Fiscal Year Ended September 30, 2004 |     |                  |                 |                  |
| Central Fiscal Operations            | 803 | <u>\$ 31,746</u> | <u>\$ (483)</u> | <u>\$ 31,263</u> |

**Note 16. Statement of Budgetary Resources vs. Budget of the United States**

There are no differences between the amounts reported on the Statement of Budgetary Resources and the Budget of the United States pertaining to budgetary resources, status of budgetary resources and net outlays for appropriated funds. However, the Budget of the United States discloses budget authority in excess of \$300 million, funding Coverover payments to Puerto Rico and the Virgin Islands, which is not reported in the Statement of Budgetary Resources.

The Coverover payments and associated tax revenues are reported as custodial activity of the Bureau. The tax revenues are not available for use in the operation of the Bureau and are not reported on the Statement of Net Cost. Likewise, the resultant Coverover payments are not recognized as an operating expense of the Bureau. Consequently, to present the refunds as an expense of the Bureau on the Statement of Net Cost would be inconsistent with the reporting of the related Federal tax revenue and would materially distort the costs incurred by the Bureau in meeting its strategic objectives. Further, since this activity is not reported on the Statement of Net Cost, it would be contradictory to report the budget authority on the Statement of Budgetary Resources.

Consolidated Appropriations Act, 2004, P.L. 108-199

|  |    |        |
|--|----|--------|
| Appropriations Received                        | \$ | 80,000 |
| Rescissions                                    |    | (472)  |
| Appropriations Received, Net                   |    | 79,528 |
| Spending Authority From Offsetting Collections |    | 1,745  |
| Total Budgetary Resources                      | \$ | 81,273 |

### Note 17. Apportionment Categories of Obligations Incurred

Obligations Incurred as of September 30, 2004 consisted of the following (in thousands):

|  | Direct<br>Obligations | Reimbursable<br>Obligations | Total<br>Obligations<br>Incurred |
|--|-----------------------|-----------------------------|----------------------------------|
| Obligations Apportioned Under Category B | \$ 81,773             | \$ 1,706                    | \$ 83,479                        |

The amount of direct and reimbursable obligations against amounts apportioned under Category B is reported in the table above. Apportionment categories are determined by the apportionment categories reported on the Standard Form 132 *Apportionment and Reapportionment Schedule*. Category B represents annual apportionments.

### Note 18. Net Custodial Revenue Activity

- **Excise Taxes**

As an agent of the Federal Government and as authorized by 26 U.S.C., TTB collects excise taxes from alcohol, tobacco, firearms and ammunition industries. In addition, special occupational taxes are collected from certain alcohol and tobacco businesses. During FY 2004, TTB collected more than \$14.7 billion in taxes, interest, and other revenues.

Substantially all of the taxes collected by TTB net of related refund disbursements are remitted to the Department of Treasury General Fund. The Department of Treasury further distributes this revenue to Federal agencies in accordance with various laws and regulations. The firearms and ammunition excise taxes are an exception. Those revenues are remitted to the Fish and Wildlife Restoration Fund under provisions of the Pittman-Robertson Act of 1937.

- **Refunds and Other Payments**

During FY 2004, TTB issued more than \$713.7 million in refunds, Coverover payments and Drawback payments.

**Coverover Payments**

Federal excise taxes are collected under the Internal Revenue Code of 1986, 26 U.S.C., on certain articles produced in Puerto Rico and the Virgin Islands, and imported into the United States. In accordance with 26 U.S.C. 7652, such taxes collected on rum imported into the United States are “covered over” or paid into the treasuries of Puerto Rico and the Virgin Islands.

TTB maintains operations in Puerto Rico to enforce the provisions of chapter 51 in respect to items of Puerto Rican manufacture brought in to the United States. These operations include conducting annual revenue, application, and product integrity investigations of large alcohol and tobacco industry members. Except for application investigations, TTB investigates medium and small alcohol and tobacco producers in response to specific problems and risk indicators. Revenue inspections are used to verify that TTB is collecting all of the revenue that is rightfully due from the taxpayer. TTB staff in Puerto Rico also conducts qualification inspections of all distilled spirits producers/processors, wineries, wholesalers; importers, Manufacturers of Non-Beverage Products (MNBP) claimants, and Specially Denatured Alcohol permit applicants. All costs associated with the functioning and supporting of the Puerto Rico office, \$1.1 million in FY 2004, are offset against the coverover payments made by the United States to Puerto Rico.

**Drawbacks**

Under current law, 26 U.S.C. 5134, Manufacturers of Non-Beverage Products (MNBP) may be eligible to claim a refund of tax paid on distilled spirits used in their products. In the case of distilled spirits, on which the tax has been paid or determined, a drawback shall be allowed on each proof gallon at the rate of \$1 less than the rate at which the distilled spirits tax had been paid or determined. The refund is due upon the claimant providing evidence that the distilled spirits on which the tax has been paid or determined, were unfit for beverage purposes and were used in the manufacture or production of medicines, medicinal preparations, food products, flavors, flavoring extracts, or perfume.

Refunds, Coverover Payments and Drawbacks as of September 30, 2004 consisted of the following (in thousands):

|  |                   |
|--|-------------------|
| Alcohol and Tobacco Excise Tax Refunds | \$ 15,409         |
| Coverover Payments - Puerto Rico       | 335,293           |
| Coverover Payments - Virgin Islands    | 6,244             |
| Drawbacks on MNBP Claims               | 355,605           |
| Interest and Other Payments            | 1,217             |
| Total                                  | <u>\$ 713,768</u> |

As of September 30, 2004, the amount of custodial liability due to the general fund was \$9,928.

### Note 19. Non-exchange Revenues and Refunds

Non-Exchange Revenue and Refunds as of September 30, 2004 consisted of the following (in thousands):

| Revenue Type                            | Tax Year             |                 |              |               | FY 2004 Collections  |
|---|----------------------|-----------------|--------------|---------------|----------------------|
|   | 2004                 | 2003            | 2002         | Pre-2002      |                      |
| Excise Taxes                            | \$ 14,743,751        | \$ 991          | \$ (45)      | \$ 263        | \$ 14,744,960        |
| Fines, Penalties,<br>Interest and Other | 701                  | 369             | 62           | 53            | 1,185                |
|   | <u>\$ 14,744,452</u> | <u>\$ 1,360</u> | <u>\$ 17</u> | <u>\$ 316</u> | <u>\$ 14,746,145</u> |

| Refund Type                             | Tax Year          |              |             |             | FY 2004 Refunds   |
|---|-------------------|--------------|-------------|-------------|-------------------|
|   | 2004              | 2003         | 2002        | Pre-2002    |                   |
| Excise Taxes                            | \$ 372,047        | \$ 52        | \$ -        | \$ -        | \$ 372,099        |
| Fines, Penalties,<br>Interest and Other | 131               | 1            | -           | -           | 132               |
|   | <u>\$ 372,178</u> | <u>\$ 53</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 372,231</u> |

# Financial Results, Position and Condition

## Required Supplemental Information

### Budgetary Information

For proprietary reporting, TTB only has appropriated funds. Consequently, a Combining Statement of Budgetary Resources disaggregated by fund type has not been presented.

### Intragovernmental Assets

| Alcohol and Tobacco Tax and Trade Bureau<br>Required Supplemental Information<br>Consolidated Intragovernmental Assets<br>As of September 30, 2004<br>Unaudited |    |                            |                        |                              |
|---|----|----------------------------|------------------------|------------------------------|
| Dollars in Thousands  |    |                            |                        |                              |
| Trading Partner   |    | Fund Balance<br>W/Treasury | Accounts<br>Receivable | Advances and<br>Other Assets |
| Department of Justice   | 15 | \$ -                       | \$ 483                 | \$ -                         |
| Department of the Treasury  | 20 | 24,247                     | -                      | 394                          |
| General Fund  | 99 | -                          | 6,686                  | -                            |
| Total   |    | \$ 24,247                  | \$ 7,169               | \$ 394                       |

### Intragovernmental Liabilities

| Alcohol and Tobacco Tax and Trade Bureau<br>Required Supplemental Information<br>Consolidated Intragovernmental Liabilities<br>As of September 30, 2004<br>Unaudited |    |                     |                 |                                    |
|--|----|---------------------|-----------------|------------------------------------|
| Dollars in Thousands   |    |                     |                 |                                    |
| Trading Partner  |    | Accounts<br>Payable | Accrued<br>FECA | Custodial and<br>Other Liabilities |
| Department of the Interior   | 14 | \$ -                | \$ -            | \$ 5,700                           |
| Department of Justice  | 15 | 4,333               | -               | -                                  |
| Department of Labor  | 16 | -                   | 22              | -                                  |
| Department of the Treasury   | 20 | 21                  | -               | -                                  |
| General Services Administration  | 47 | 29                  | -               | -                                  |
| Office of the Secretary of Defense-Defense Agencies  | 97 | 6                   | -               | -                                  |
| Treasury General Fund  | 99 | 132                 | -               | 4,228                              |
| Total  |    | \$ 4,521            | \$ 22           | \$ 9,928                           |

## Intragovernmental Earned Revenue

| Alcohol and Tobacco Tax and Trade Bureau<br>Required Supplemental Information<br>Consolidated Intragovernmental Earned Revenue<br>For the Fiscal Year Ended September 30, 2004<br>Unaudited |    |         |     |
|---|----|---------|-----|
| Dollars in Thousands  |    | FY 2004 |     |
| Trading Partner   |    |         |     |
| Department of Justice   | 15 | \$      | 483 |
| Total   |    | \$      | 483 |
| <b>Gross Cost to Generate Earned Revenue:</b>   |    |         |     |
| Budget Functional Classification  |    | FY 2004 |     |
| Central Fiscal Operations - 803   |    | \$      | 483 |
| Total   |    | \$      | 483 |

## Intragovernmental Imputed Financing and Non-exchange Activity

| Alcohol and Tobacco Tax and Trade Bureau<br>Required Supplemental Information<br>Consolidated Intragovernmental Imputed Financing and Non-exchange Activity<br>For the Fiscal Year Ended September 30, 2004<br>Unaudited |    |                           |                           |               |                                  |               |  |
|--|----|---------------------------|---------------------------|---------------|----------------------------------|---------------|--|
| Dollars in Thousands   |    | FY 2004                   |                           |               |                                  |               |  |
| Trading Partner  |    | Imputed Financing Sources | Unexpended Appropriations |               | Nonexchange Activity             |               | Non-exchange Revenue and Other Financing Sources |
|  |    |                           | Transfers-In              | Transfers-Out | Cumulative Results of Operations |               |  |
|  |    |                           |                           |               | Transfers-In                     | Transfers-Out |  |
| Department of the Interior   | 14 | \$ -                      | \$ -                      | \$ -          | \$ -                             | \$ -          | \$ 220,972                                       |
| Department of the Treasury   | 20 | 502                       | -                         | -             | -                                | -             | -  |
| Office of Personnel Management   | 24 | 3,233                     | -                         | -             | -                                | -             | -  |
| General Fund   | 99 | -                         | -                         | -             | -                                | -             | 13,816,462                                       |
| Total  |    | \$ 3,735                  | \$ -                      | \$ -          | \$ -                             | \$ -          | \$ 14,037,434                                    |

## Intragovernmental Gross Cost

| <b>Alcohol and Tobacco Tax and Trade Bureau<br/>                     Required Supplemental Information<br/>                     Consolidated Intragovernmental Gross Cost<br/>                     For the Fiscal Year Ended September 30, 2004<br/>                     Unaudited</b> |    |                |        |
|--|----|----------------|--------|
| <b>Dollars in Thousands</b>  |    | <b>FY 2004</b> |        |
| Trading Partner  |    |                |        |
| Library of Congress  | 03 | \$             | 25     |
| Department of Justice  | 15 |                | 14,889 |
| Department of Labor  | 16 |                | (405)  |
| Department of the Treasury   | 20 |                | 1,374  |
| Office of Personnel Management   | 24 |                | 9,141  |
| General Services Administration  | 47 |                | 6,405  |
| Department of Homeland Security  | 70 |                | 5      |
| Department of Health and Human Services  | 75 |                | 50     |
| Department of Defense  | 97 |                | 12     |
| General Fund   | 99 |                | 250    |
| Total  |    | \$             | 31,746 |

During FY 2004, TTB incurred costs with other Federal agencies totaling \$31.7 million. The majority of those costs were associated with the four entities detailed below.

- Department of Justice – ATF provided the Bureau \$14.9 million in administrative and IT services.
- Department of the Treasury - The Bureau received services from Treasury's Working Capital Fund, as well as administrative services from the Bureau of Public Debt's Administrative Resource Center, in the amount of \$1.4 million.
- Office of Personnel Management - \$9.1 million in costs were incurred for employee benefits.
- General Services Administration - \$6.4 million paid to GSA was for rent and IT services.

## Other Supplemental Information

### Excise Tax and Other Collections

| Alcohol and Tobacco Tax and Trade Bureau<br>Other Supplemental Information<br>Excise Tax and Other Collections by Fiscal Year<br>Unaudited |                     |                     |                   |                   |                  |               |                      |
|--|---------------------|---------------------|-------------------|-------------------|------------------|---------------|----------------------|
| Dollars in Thousands   |                     |                     |                   |                   |                  |               |                      |
| Fiscal<br>Year   | Alcohol             | Tobacco             | FAET              | SOT               | FST              | Other         | Total                |
| 1995   | \$ 6,858,330        | \$ 6,016,126        | \$ 186,585        | \$ 111,031        | \$ 239           | \$ 16         | \$ 13,172,327        |
| 1996   | 6,633,546           | 5,772,803           | 161,030           | 108,275           | 103              | 9             | 12,675,766           |
| 1997   | 6,594,847           | 5,879,744           | 149,090           | 106,691           | 35               | 19            | 12,730,426           |
| 1998   | 6,524,894           | 5,623,987           | 164,792           | 106,236           | 2                | 156           | 12,420,067           |
| 1999   | 6,646,879           | 5,189,724           | 187,978           | 104,740           | -                | 229           | 12,129,550           |
| 2000   | 6,777,592           | 6,758,060           | 197,840           | 102,803           | 261,824          | 351           | 14,098,470           |
| 2001   | 6,674,425           | 7,119,726           | 175,959           | 103,610           | 528              | 168           | 14,074,416           |
| 2002   | 6,889,401           | 7,763,652           | 205,027           | 101,893           | 115,609          | 159           | 15,075,741           |
| 2003   | 6,910,631           | 7,380,807           | 193,414           | 103,781           | 1,628            | -             | 14,590,261           |
| 2004   | 6,995,366           | 7,433,852           | 216,006           | 100,562           | -                | 359           | 14,746,145           |
| Average  | <u>\$ 6,750,591</u> | <u>\$ 6,493,848</u> | <u>\$ 183,772</u> | <u>\$ 104,962</u> | <u>\$ 37,997</u> | <u>\$ 147</u> | <u>\$ 13,571,317</u> |

FAET - Firearms and Ammunition Excise Tax  
SOT - Special Occupational Tax  
FST - Floor Stock Tax



## Refunds

| Alcohol and Tobacco Tax and Trade Bureau<br>Other Supplemental Information<br>Refunds by Fiscal Year<br>Unaudited |                       |                          |                |                       |                    |            |  |
|---|-----------------------|--------------------------|----------------|-----------------------|--------------------|------------|--|
| Dollars in Thousands  |                       |                          |                |                       |                    |            |  |
| Fiscal Year   | Coverover Puerto Rico | Coverover Virgin Islands | A&T Excise Tax | Drawbacks MNBP Claims | Interest and Other | Total      |  |
| 2000  | \$ 296,313            | \$ 2,963                 | \$ 5,420       | \$ 261,377            | \$ 1,221           | \$ 567,294 |  |
| 2001  | 332,903               | 3,532                    | 13,260         | 289,985               | 1,765              | 641,445    |  |
| 2002  | 340,362               | 5,145                    | 10,523         | 361,854               | 1,855              | 719,739    |  |
| 2003  | 356,144               | 6,405                    | 15,168         | 296,168               | 2,011              | 675,896    |  |
| 2004  | 335,293               | 6,244                    | 15,409         | 355,605               | 1,217              | 713,768    |  |
| Average   | \$ 332,203            | \$ 4,858                 | \$ 11,956      | \$ 312,998            | \$ 1,614           | \$ 663,628 |  |

A&T - Alcohol and Tobacco

MNBP - Manufacturer of Non-Bverage Products

# Financial Results, Position and Condition

## Principal Officers of TTB

**Administrator.....John Manfreda**  
**Deputy Administrator.....Vicky McDowell**  
**Chief of Staff.....Theresa Glasscock**  
**Chief Counsel.....Robert Tobiassen**  
**Assistant Administrator Headquarters Operations.....Susan Stewart**  
**Assistant Administrator Management/CFO.....Cheri Mitchell**  
**Assistant Administrator Field Operations.....Vacant**

**For additional information, Contact:**

**Alcohol and tobacco Tax and Trade Bureau  
1310 G. Street, N.W.  
Washington, D.C. 20220**

**(202) 927-5000**

**Internet Address**

**(<http://www.ttb.treas.gov>)**

## Appendices

| <b>RELATIONSHIP BETWEEN THE TREASURY AND TTB STRATEGIC PLANS</b>   |  |  |
|--|--|--|
| <b>Treasury Objectives to Which TTB Strategic Goals are Aligned</b>  | <b>TTB Strategic Goal</b>  | <b>TTB Objectives</b>  |
| <p><b>Promote Stable U.S. and World Economies</b></p> <ul style="list-style-type: none"> <li>• Increase citizens' economic security</li> </ul>   | <p><b>Protect the Public:</b><br/>Prevent consumer deception; ensure that regulated alcohol and tobacco products comply with Federal commodity, safety, and distribution requirements; and provide high quality customer service.</p>  | <p>Ensure that regulated products meet commodity and safety requirements established by Federal law, provide information to the public, and reduce the burden on industry.<br/>Prevent consumer deception, ensure compliance with Federal distribution requirements, and provide information to the public.</p>  |
| <p><b>Manage the U.S. Government's Finances Effectively</b></p> <ul style="list-style-type: none"> <li>• Collect federal tax revenue when due, through a fair and uniform application of the law</li> </ul>  | <p><b>Collect the Revenue:</b><br/>Provide the most effective and efficient system for the collection of all revenue that is rightfully due; eliminate or prevent tax evasion and other criminal conduct; and provide high quality service while imposing the least regulatory burden.</p> | <p>Improve service to the taxpayer and reduce the burden of compliance with Federal law.<br/>Collect all the revenue that is rightfully due.<br/>Prevent tax evasion and identify other criminal conduct in the regulated industries.</p>  |
| <p><b>Ensure Professionalism, Excellence, Integrity and Accountability in the Management and Conduct of the Department of the Treasury</b></p> <ul style="list-style-type: none"> <li>• Manage Treasury resources effectively, to accomplish the mission and provide quality customer service</li> </ul> | <p><b>Refine Management Practices:</b><br/>Ensure that all TTB programs operate at optimum efficiency and effectiveness and with full accountability, by providing high quality management and administrative support.</p>   | <p>Implement a performance-based management system for meeting TTB's mission.<br/>Employ information technology to support program management and improve TTB mission performance through the deployment of information systems that are secure, compatible, and cost effective.<br/>Use financial management systems to support TTB strategic management and financial accountability by providing information that is useful, timely, and reliable, and that assists TTB in optimizing decision-making.<br/>Manage human capital to support TTB programs and the achievement of Bureau goals by building and sustaining a work environment conducive to performance excellence, and personal and organizational development.</p> |

# Department of the Treasury

## Alcohol and Tobacco Tax and Trade Bureau (TTB)

### History (1789 – 2005)

Alcohol and Tobacco  
Tax and Trade Bureau (TTB)  
2003

Bureau of Alcohol, Tobacco and Firearms (ATF)  
Department of the Treasury  
1972 to 2003

**Bureau of Alcohol,  
Tobacco, Firearms and  
Explosives  
Department of Justice**

Alcohol, Tobacco and Firearms Division (ATFD)  
Internal Revenue Service  
Department of the Treasury  
1968 to 1972

Alcohol & Tobacco Tax Division (ATTD)  
Internal Revenue Service  
Department of the Treasury  
1952 to 1968

Alcohol Tax Unit (ATU)  
Bureau of Internal Revenue  
Department of the Treasury  
1933 to 1952

Federal Alcohol  
Administration  
Department of the Treasury  
1935 to 1940

Bureau of Industrial Alcohol  
Department of the Treasury  
1930 to 1933

Federal Alcohol Control  
Administration  
1933 to 1935

Bureau of Prohibition  
Department of the Treasury  
1927 to 1930

**Bureau of Prohibition  
Department of Justice  
1930 to 1934**

Prohibition Unit  
Bureau of Internal Revenue  
Department of the Treasury  
1920 to 1927

Miscellaneous Tax Unit  
Bureau of Internal Revenue  
Department of the Treasury  
1862 to 1952

The United States Department of the Treasury and the first federal taxes on distilled spirits were established in 1789.