



Alcohol and Tobacco Tax and Trade Bureau  
**PERFORMANCE AND ACCOUNTABILITY  
REPORT**



FISCAL YEAR 2008

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## INTRODUCTION

Within its Performance and Accountability Report for 2008, the Alcohol and Tobacco Tax and Trade Bureau (TTB) combines its program performance and financial data to account for how effectively the Bureau translates its program dollars into quality service, consumer protection, and increased tax revenue.

This report is not compulsory under the Government Performance and Results Act (GPRA), but the Bureau elects to present these data annually in an effort to communicate relevant performance and financial information. As part of the performance and budget cycle, this report grants the Bureau an opportunity to inform stakeholders of its successes and explain any shortfalls.

The report defines the Bureau's mission, strategic goals, and major programs, and summarizes our progress in meeting our objectives, as stated in the five-year strategic plan. Also included is valuable financial information that discusses how TTB expended its budget, and accounted for tax collections.

This information is presented in four parts:

- **Part I – Management's Discussion and Analysis.** This section provides a message from the TTB Administrator, highlights of program and financial operations, and a summary of TTB's program performance.
- **Part II – Program Performance Results.** This section provides a recap of each performance measure, the improvement actions underway as a result of the Program Assessment Rating Tool (PART) evaluations, and an overview of the Bureau's accomplishments under its Management and Organizational Excellence mission goal.
- **Part III – 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. TTB presents unaudited financial statements in Part III of this document. The transactions and records that comprise this information are part of the consolidated financial data, which have been presented at the Departmental level. Although these statements are not independently audited, the information should be viewed as a reliable and accurate portrayal of the Bureau's financial operations. Also included in this section is a message from the TTB Chief Financial Officer, a discussion of budget activities for each of the Bureau's seven major programs, and supplemental information, such as a history of Federal excise tax collections for the past decade.
- **Part IV – Appendices.** This section includes a listing of TTB principal officers and strategic planning information that demonstrates linkages between TTB's objectives and the overall Department of the Treasury's mission and goals.

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## MESSAGE FROM THE ADMINISTRATOR



As the Administrator of the Alcohol and Tobacco Tax and Trade Bureau, I frequently have the opportunity to engage the owners and employees of the businesses we regulate at various industry seminars and conferences. The feedback I receive at these events is inevitably the same—gratitude for the professionalism and service provided by TTB.

Though I witness the dedication of TTB employees daily, hearing that it is recognized and appreciated by the industry is a source of great pride. At every level, TTB cultivates an internal culture of integrity and respect that extends to our interactions with industry.

A mainstay of the Bureau's approach to regulation and tax collection has been to emphasize education and outreach to ensure that the industry has the necessary information and tools to comply with Federal requirements related to alcohol, tobacco, firearms, and ammunition. The Bureau partly attributes the high rate of voluntary compliance among our largest taxpayers, who remit 99.8 percent of the nearly \$15 billion in excise taxes TTB collects annually, to the quality seminars and workshops we hold throughout the year.

At the first annual TTB Expo, the Bureau demonstrated its commitment to industry outreach—hosting 42 unique sessions and 16 exhibit booths to teach the fundamentals of Federal reporting and filing requirements for alcohol, tobacco, and firearms, as well as the rules of marketing alcohol beverages. As a mark of success, 98 percent of the more than 550 attendees said they would return to future TTB events.

TTB also credits the surge in use of COLAs Online, our Web-based system for filing alcohol beverage label applications, to the time spent educating the industry on the benefits of e-filing. In fiscal year 2008, usage rates climbed to 62 percent, a 10 point increase over the prior year. In all, TTB staff members processed more than 133,000 label applications this fiscal year.

Cooperation with U.S. foreign trading partners has been another primary focus to further the Bureau's ability to protect consumers from potentially unsafe imported products and to open international markets to domestic producers. In December 2007, TTB signed a memorandum of understanding with China's General Administration of Quality Supervision, Inspection and Quarantine. The agreement facilitates the exchange of information on the identity and quality of imported and exported alcohol and tobacco products and strengthens the mutual enforcement of import and export regulations.

Another common conviction that drives decision-making at the Bureau is the principle of good government. Efficiency of operations is a goal for both our Collect the Revenue and Protect the Public missions. In FY 2008, the Bureau deployed the IRIS 3.0 application, which substantially improves the electronic systems used to collect and account for the excise taxes collected by TTB. The Bureau also instituted an electronic lockbox system at the National Revenue Center to expedite return processing by converting all tax receipts to a digital format, channeled through the electronic funds transfer system. The efficiencies TTB has gained through automation and sound operating decisions have enabled the Bureau to return \$313 to the public coffers for every \$1 invested in the Collect the Revenue program.

The dedicated employees of TTB achieved these accomplishments, and many others discussed in this annual performance report, through diligence and innovation. Both performance data and industry feedback indicate that the Bureau is moving in the right direction, operating under a shared vision set forth in our new five-year Master Strategic Plan. As an organization, we are driven to meet the challenges that lay ahead through customer service and education, international cooperation, and by leveraging electronic solutions to meet our mission goals.

A handwritten signature in black ink that reads "John J. Manfreda". The signature is written in a cursive, flowing style.

John J. Manfreda  
Administrator

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## VISION, MISSION, AND VALUES

### Vision

Our vision is to 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 TTB collects taxes and those TTB regulates.

### Mission

The mission of TTB is to:

- Collect alcohol, tobacco, firearms, ammunition excise taxes that are rightfully due;
- Protect the consumer of alcohol beverages through compliance programs that are based upon education and enforcement of the industry to ensure an effectively regulated marketplace; and
- Assist industry members to understand and comply with Federal tax, product, and marketing requirements associated with the commodities we regulate.

### Values

We value each other and those we serve. This Bureau:

- Upholds the highest standards of excellence and integrity;
- Provides quality service and promotes strong external partnerships;
- Develops a diverse, innovative, and well-trained work force in order to achieve our goals; and
- Embraces learning and change in order to meet the challenges of the future.



## TTB MISSION GOALS

### *Goals for Collect the Revenue:*

#### **1. Voluntary Compliance:**

Provide high quality service, while imposing the least regulatory burden.

#### **2. Tax Verification and Validation:**

Promote voluntary compliance and eliminate or prevent tax evasion and other criminal conduct.

#### **3. Effective and Efficient Tax Collection Systems:**

Provide the most effective and efficient system for the collection of all revenue that is rightfully due.

### *Goals for Protect the Public:*

#### **1. Business Integrity:**

Assure that only persons who carry permits as authorized by statute operate within the industries TTB regulates.

#### **2. Product Integrity:**

Help industry members comply with all Federal labeling and advertising requirements for their products.

#### **3. Market Integrity:**

Assure the alcohol marketplace is free from anti-competitive practices.

#### **4. Effective and Efficient Systems to Promote Economic Opportunity:**

Facilitate economic opportunity and growth by maximizing TTB Protect the Public systems' effectiveness and efficiencies.

### *Goal for Management and Organizational Excellence:*

#### **1. Management-Supported Optimum Program Effectiveness and Efficiency:**

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

## PROFILE OF A BUREAU

The mission of the Alcohol and Tobacco Tax and Trade Bureau is to collect alcohol, tobacco, firearms and ammunition excises taxes that are rightfully due and to protect the consumer of alcohol beverages from unsafe or improperly labeled products and from unfair competitive practices in the trade of alcohol. Put simply, TTB “Collects the Revenue” and “Protects the Public” through seven major regulatory and compliance programs.

The Bureau was formed in January 2003, under the Homeland Security Act of 2002, but our history begins more than 200 years ago as one of the earliest Federal tax collection agencies. Today, TTB operates under the authorities of the Internal Revenue Code of 1986, the Federal Alcohol Administration Act (FAA Act), including the Alcoholic Beverage Labeling Act of 1988, and the Webb-Kenyon Act.

### Collect the Revenue

Each year, TTB collects nearly \$15 billion in alcohol, tobacco, firearms, and ammunition excise taxes from about 6,500<sup>1</sup> taxpayers. As the third largest tax collection agency in the U.S. Government (behind the Internal Revenue Service and Customs and Border Protection), our collection duties help to ensure that the Federal Government has the funds needed to operate.

The TTB National Revenue Center (NRC) oversees many of the Bureau’s collection activities, which are administered under two primary programs—the Alcohol and Tobacco Program and the Firearms and Ammunition Excise Tax (FAET) Program.

TTB directs a majority share of its Collect the Revenue resources to the Alcohol and Tobacco Program, as these industries constitute more than 98 percent of the Bureau’s revenue collections. Both of these Collect the Revenue programs require that TTB perform the necessary tax processing, verification, audit, and investigation activities to calculate and collect the excise taxes due.

Before the Bureau can determine tax liability, a tax class must be assigned to alcohol and tobacco products based on regulatory standards. For alcohol beverages, classification requires that the Bureau review the formula of certain products, like flavored malt beverages (FMB), before they enter the market. If a review of the formula were to disclose that the finished FMB product would derive more than 49 percent of its alcohol by volume from added flavors that are spirits-based, the product would be reclassified and taxed as a spirits product, rather than a malt beverage.

TTB also conducts post-market product evaluations to check for proper tax classification. As an example, TTB receives numerous samples of cigar products from manufacturers and importers seeking verification that the product is a cigar rather than a cigarette. The samples are submitted not only for Federal excise tax purposes, but also for State evaluations because some States defer to TTB for such determinations. When classifying these products under the Internal Revenue Code, TTB evaluates the product’s wrapper, the type of tobacco used in the filler, the product’s appearance, and its packaging and labeling. Misclassification of such products would have a significant consequence on revenue collection, as small cigars are taxed at a fraction of the cigarette tax rate.

Accomplishing the Collect the Revenue mission also requires the Bureau’s auditors, investigators, and tax specialists to work in concert to verify and validate that industry members pay the proper amount of

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<sup>1</sup> About 9,200 TTB permittees are eligible to file a tax return and pay excise taxes throughout the year; however, many operations do not result in taxable removals. Therefore, in FY 2008, about 6,500 permittees had operations that required them to file a tax return and pay excise tax.

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tax on the regulated commodity. Working on taxpayer premises, TTB field personnel audit production records and tax returns to ensure compliance with laws and regulations. To conserve and more efficiently use our resources, TTB moved from random selection of audit targets to a risk-based selection model. In FY 2008, the Bureau completed audits for close to 180 industry members.

At the NRC, tax specialists reconcile tax returns against the industry members' operational reports to verify the proper payment of tax.

The NRC also processes claims, computes penalties and interest, and issues notice and demand letters to taxpayers who missed or are late in filing payments. In some cases where an industry member fails to comply with various laws and regulations, TTB negotiates Offers-in-Compromise to recover lost tax revenue, plus interest and penalties.

## Protect the Public

TTB facilitates growth in the U.S. economy by enabling qualified applicants to enter business as an alcohol producer, wholesaler or importer, or as a tobacco products manufacturer, importer or exporter. Since 2003, the number of applicants filing for a permit or registration with TTB has grown 58 percent. Today, the Bureau regulates more than 46,000 industry members.

Under its FAA Act authority, TTB conducts a comprehensive screening of each applicant prior to issuing a permit to determine his or her eligibility to operate within the regulated industries. Through this process, and other activities under its Permits and Business Assurance Program, TTB prevents prohibited persons—including organized crime groups and terrorist networks—from commencing operations and potentially diverting products from legitimate commercial channels in order to fund illicit activity.

TTB is also charged with assuring that the alcohol marketplace is free from practices that would stifle competition. As part of the Trade Facilitation Program, TTB has reinvigorated FAA trade practices activities to investigate acts that violate Federal law relating to alcohol beverage marketing practices. TTB also works to address barriers in the international marketplace by partnering with other Federal agencies and participating in the negotiation of international trade agreements related to alcohol and tobacco products.

Consumer confidence is essential to ensuring that U.S. and world economies perform at their full economic potential. TTB, through its Labeling, Advertising, and Product Safety Program, assures that industry members provide full and accurate information on alcohol labels and in advertisements. Before an alcohol beverage can enter interstate commerce, TTB completes a review of the product label to ensure the label contains all mandatory information and does not mislead the consumer. In addition, labels are reviewed for compliance with the Alcohol Beverage Labeling Act, which mandates that a Government health warning statement appear on all alcohol beverages for sale and distribution in the United States.

The number of applications for label approval, or Certificates of Label Approval (COLAs), that TTB receives has risen 31 percent over the past five years. In FY 2008, the Bureau processed more than 133,000 COLAs. The significant majority of label applications we receive annually are for wine products. In FY 2008, the wine industry submitted 85 percent of the label applications processed by TTB.

Once alcohol beverages enter the marketplace, TTB monitors labeling compliance through the Alcohol Beverage Sampling Program. This involves examining a statistically-valid sample of wine, spirits, and malt beverages products to determine if the labels meet Federal requirements, and if the contents of the

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bottle match the label description. This process includes a chemical analysis of selected products by the TTB laboratory.

Advertisements for alcohol beverage products are reviewed, under the Alcohol Beverage Advertising Program. A representative sample of ads from television, radio, the Internet, and other ad sources are collected and reviewed for compliance with Federal regulations.

Further, to ensure the integrity of foreign and domestic alcohol beverage products available for sale in the U.S. marketplace, TTB investigates consumer complaints, suspected cases of product contamination, and reports of unsafe imported products. The Bureau also performs routine analyses of wines to ensure safe levels of pesticides and heavy metals.

In all of the Collect the Revenue and Protect the Public program areas, TTB emphasizes voluntary compliance from the industry through its outreach efforts. The Bureau sponsors annual seminars and workshops to educate the industry on Federal requirements in the areas of manufacturing, marketing, importing and exporting, and paying tax on alcohol and tobacco products, and firearms and ammunition.

In FY 2008, TTB sponsored several commodity-based compliance seminars in locations across the United States. The Bureau also held the first annual TTB Expo for all segments of the regulated industries. The event consisted of more than 40 educational sessions presented by subject matter experts from within TTB offices, as well as from requisite State or Federal agencies. Exhibition booths provided information and demonstrations to more than 550 attendees. The response from the industry confirmed that there is a need for a large-scale, comprehensive seminar on an annual basis.

TTB also employs a dedicated staff of industry analysts and liaisons to provide industry members and the States with direct assistance on specific needs or guidance on broader issues.

## Organization

The TTB executive staff includes the Administrator and Deputy Administrator, and four Assistant Administrators for the directorates of Headquarters Operations, Field Operations, Management/CFO, and Information Resources/CIO. Also on the executive management team are the Director, Office of Inspection, the Director, Equal Employment Opportunity and Diversity Advancement, and the Executive Liaison for Industry and State Matters. The Bureau's Chief Counsel serves TTB and its mission, but reports through an independent chain of command to the Treasury Office of the General Counsel.

The Bureau has an authorized workforce of 544 employees and occupies facilities throughout the United States. Our headquarters offices are located in Washington, D.C., and employ about 150 analysts, specialists, attorneys, and management personnel. The largest contingent of TTB employees is located at the National Revenue Center in Cincinnati, Ohio, where about 180 specialists and analysts process the Bureau's returns and permit applications.

The remaining TTB employees telework from home offices or report to field offices located in several major U.S. cities, as well as Puerto Rico, or at TTB's laboratory facilities located in Beltsville, Maryland and Walnut Creek, California. The Maryland laboratory facility is jointly owned by TTB and the Department of Justice's Bureau of Alcohol, Tobacco, Firearms, and Explosives.

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## Part I: Management's Discussion and Analysis

### BUREAU HIGHLIGHTS

#### TTB Expo 2008 Scores Big with Industry



TTB senior officials at the 2008 TTB Expo.

TTB assembled a cadre of experts and delved into the details of Federal compliance for all of the regulated industries at its first annual TTB Expo at the Northern Kentucky Convention Center in Covington, Kentucky.

Over two days in June, the Bureau sponsored this comprehensive conference to offer members of the various TTB-regulated industries the opportunity to hear about regulatory developments, learn how to comply with TTB requirements, network with other industry members, and meet with TTB and other Federal and State agency representatives—all in one place.

Attendees could select from more than 40 unique educational sessions targeted to members of the alcohol, tobacco, firearms, and ammunition industries, as well as those interested in entering one of those businesses. The classroom sessions covered various industry-specific topics, such as obtaining permits and registrations, alcohol labeling, recordkeeping requirements, and filing operational reports and taxes. Courses on e-Government systems, alcohol beverage formula approval, and fair trade practices also drew large crowds.

Since many members of the alcohol, tobacco, and firearms industries are also regulated by additional government agencies, several TTB Expo sessions were presented by State and other Federal organizations. These presentations included four State alcohol beverage agencies, the Federal Trade Commission, U.S. Customs and Border Protection, and the Foreign Trade Zone Board.

Staying true to the event theme, “Building Bridges between Government and Industry,” participants were encouraged to ask questions of the TTB employees who review their applications, process their returns, and analyze their products. Presenters were on-hand after classroom sessions, and other TTB experts staffed nearly 20 exhibition booths on a variety of topics.

Attendance at the Expo was impressive, with more than 550 participants representing all areas of the regulated industries. Feedback following the event was extremely favorable and indicated that many attendees would like TTB to make the conference an annual event. Work on TTB Expo 2009 is underway.

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## TTB and China Reach Agreement on Trade Facilitation

In December 2007, TTB signed a Memorandum of Understanding (MOU) with China's General Administration of Quality Supervision, Inspection and Quarantine. The intent of the MOU is to protect consumers and establish a consistent channel for the exchange of information regarding imported and exported alcohol and tobacco products.

This agreement bolsters the long-term economic partnership between the U.S. and China by setting forth a consultative process to strengthen cooperation in administering import and export alcohol and tobacco regulations. Further, the MOU establishes a means of information exchange in relation to the identity and quality of these products.

Through this agreement, each agency will assist its counterpart in complying with all relevant laws and regulations. Both agencies also agreed to undertake cooperative actions to facilitate trade as resources allow.

Since the signing, TTB has developed plans for subsequent phases of the MOU. These include cross-training with Chinese professionals on technical aspects of wine production and analysis.

Working with the Department of the Treasury as part of the U.S./China Strategic Economic Dialogue, TTB will move forward with enacting the provisions of the MOU and will ensure that the MOU with China remains active and viable.

## New Tobacco Laboratory Reenergizes Tobacco Program

Renewed efforts and focus at TTB in the tobacco program area, including a 2006 notice of proposed rulemaking on the tax classification of tobacco products, has increased the demand for technical support from our program offices in tobacco product classification, rulemaking projects, and the enforcement of tobacco regulations.

As the Bureau division tasked to provide technical support to TTB offices, the Scientific Services Division (SSD) established the Tobacco Laboratory in January 2008 to ensure that the Bureau addresses the growing needs of this program area. The new Tobacco Laboratory was created by reorganizing the Nonbeverage Products Laboratory, which previously provided the tobacco-related support to TTB program offices.

In its mission statement, the Tobacco Laboratory commits to helping TTB achieve its overall mission by producing "accurate and authoritative information for tobacco products needed by TTB in collecting the revenue." Fulfilling this commitment requires that TTB develop new analytical capabilities and bring novel technologies to develop this arm of SSD into a world-class tobacco laboratory.

As a distinct branch of SSD, the Tobacco Laboratory is charged with staying abreast of the advances in tobacco science as well as the changes in tobacco manufacturing processes. In FY 2008, the laboratory focused on identifying chemical markers in various tobacco products to help TTB establish objective criteria for distinguishing between product classes.

The Tobacco Laboratory continues to work closely with TTB offices, assisting the Regulations and Rulings Division in providing tax classifications and technical support on tobacco-related rulemakings. The lab also supports the Trade Investigations Division, the Tax Audit Division, and the Trade Analysis and Enforcement Division in their efforts to thwart tax evasion and the illicit tobacco trade.



TTB Tobacco Laboratory Chief, Dr. Dawit Bezabeh, oversees the testing of tobacco products.

## TTB Fosters Partnership with Australian Counterpart Agency



TTB hosted a visitor in March 2008 from the Australian Wine and Brandy Corporation.

TTB and the Australian Wine and Brandy Corporation (AWBC) engaged in their second staff exchange program, modeled after a successful 2002 initiative, to strengthen the relationship between the U.S. and Australian bodies charged with regulating alcohol beverages.

The AWBC has functions analogous to TTB's regulatory activities, including defining winegrowing regions and regulating wine production and marketing practices. Through the exchange program, representatives from both agencies gain an understanding of each country's regulatory regimes as they relate to the production and trade of alcohol beverages.

TTB welcomed a manager from the AWBC's Export Compliance Office in March 2008. Several TTB offices briefed the AWBC representative on topics such as how to conduct an audit or investigation, our scientific services, mandatory labeling requirements, and the rulemaking process. The visit included a tour of the laboratory facility in Beltsville, Maryland, and a stop at the National Revenue Center (NRC) in Cincinnati, Ohio, where staff gave an overview of TTB tax collection and permit operations.

The AWBC representative provided an in-depth presentation on Australian wine labels and the AWBC's export approval process to both TTB headquarters staff and NRC employees. The AWBC also shared information on its Wine Export Approval system, which could serve as an example to TTB as it endeavors to automate its permit process.

The visit included tours of various government agencies and industry venues in cities across the United States. In addition to visiting a winery and brewery in Texas, the AWBC representative attended the TTB-sponsored COLAs Online workshop in Dallas to learn about our electronic system for filing Certificate of Label Approval applications, or COLAs. Additionally, U.S. Customs and Border Protection at the Port of Baltimore provided a complete tour of its importing facilities, including hands-on training on the use of its imports duty database and a demonstration of how to use a portable X-ray machine.

The direct contacts developed by the exchange program have already paid dividends, with the TTB Wine Labeling Office and the AWBC Export Compliance Office regularly exchanging information on labeling issues. The AWBC will host a manager from TTB's Office of Headquarters Operations in fiscal year 2009 to present a comprehensive look at its alcohol regulation programs.



## **TTB Reengineers Diversion Program**

In FY 2008, TTB's Office of Field Operations began a re-engineering of its diversion program to ensure that key components, including intelligence-gathering, training, enforcement through audits and investigations, and liaison efforts are well-placed to combat alcohol and tobacco diversion.

As part of this effort, TTB worked with several State law enforcement agencies to seize alcohol and tobacco products that were illegally imported and diverted; these cases involved operations without a permit, underpayment of tax, and the falsification of import documents. We have also developed leads and coordinated enforcement efforts with State, Federal, and international law enforcement partners, including the Bureau of Alcohol, Tobacco, Firearms, and Explosives (ATF), the Internal Revenue Service, Immigration and Customs Enforcement, the Federal Bureau of Investigation, U.S. Customs and Border Protection (CBP), the U. S. Department of Agriculture, the U.S. Department of State, as well as the European Anti-Fraud Office, and the Royal Canadian Mounted Police.

TTB has not only worked closely with other enforcement agencies on cases involving diversion, but has also coordinated information sharing efforts to ensure the most efficient and informed approach to its diversion program. TTB is a co-sponsor of the annual U.S./Canada Tobacco Diversion Workshop, which was most recently held in April 2008. This conference provides a critical liaison opportunity, establishing TTB as the agency overseeing Federal tax and fostering global enforcement efforts against tobacco diversion. This past conference was attended by law enforcement and tax representatives from the United States, Canada, Ireland, the United Kingdom, New Zealand, and Australia, with over 150 participants. TTB also held two information sharing conferences in FY 2008. In addition to representatives from TTB, representatives from State revenue and enforcement agencies as well as Federal regulatory and enforcement agencies participated in the conferences, which featured presentations by New York State, ATF, CBP, the National Association of Attorneys General, and TTB. These sessions resulted in the exchange of valuable information regarding targeting, enforcement best practices, and regulatory practices.

Finally, in August 2008, TTB held diversion training for its auditors and investigators, which included topics such as trends and schemes, sources of information, and presentations from the Foreign Trade Zones staff and Customs Border Service. TTB's diversion training program ensures that auditors and investigators are equipped to identify indicators of diversion and to address diversion schemes using all of the enforcement resources available to the Bureau.

In FY 2009, we plan to conduct more audits and investigations of entities that our intelligence indicates are likely to be involved in unlawful diversion. Specifically, we will look into cases involving entities operating without permits (such as moonshine); entities understating quantities of products manufactured, imported or exported; or entities misclassifying products to reflect a lower tax rate than the actual applicable rate; and other similar schemes. In addition, we are developing a sampling methodology to determine the Federal revenue loss from diversion activities.

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## TTB Addresses Import Safety Issues

In early FY 2008, many news stories focused on safety issues with various imported products, ranging from children's toys and cat food to toothpaste and seafood. To form a collective Federal response to these increasing product safety issues, the President issued an executive order in July 2007 to establish the Interagency Working Group on Import Safety.

TTB signed on to represent the Department of the Treasury on this working group. As part of its mission, and in consultation with the Food and Drug Administration, TTB maintains a comprehensive import safety program to verify that all wine, beer, and spirits products in the U.S. food supply chain are safe for consumption.

The working group was tasked with conducting a comprehensive review of current import safety practices and recommending areas for improvement. As part of this effort, TTB devised a series of recommendations meant to highlight the importance of import safety and to ensure the safety of imported alcohol and tobacco products. In FY 2008, the Bureau completed all of the recommendations which had specific target dates for implementation; the remaining recommendations form part of TTB's ongoing activities.

These recommendations included the implementation of a new Alcohol Beverage Sampling Program and participation by the TTB Laboratory in the Food Emergency Response Network, which were both completed in February 2008. TTB also addressed the recommendation to forge additional formal agreements with foreign counterpart regulators by signing a Memorandum of Understanding with China's General Administration of Quality Supervision, Inspection and Quarantine in December 2007. Ongoing efforts include reaching out to industry regarding importation requirements and monitoring foreign reports of potential health hazards.

These and a number of other new and ongoing efforts allow the Bureau to better meet its mission of protecting the public by ensuring that all imported alcohol products are properly labeled. They also facilitate better coordination with U.S. Customs and Border Protection so that we can alert the agency of any import shipments that contain unauthorized substances and initiate appropriate action to protect the U.S. marketplace.



The International Trade Division is responsible for expanding foreign market opportunities for domestic producers.

## TTB Risk Assessment Tool Promotes Strong Internal Control Environment



The TTB National Revenue Center's Revenue Accounting Section tracks and accounts for \$15 billion in annual TTB tax collections.

The National Revenue Center (NRC), the hub of TTB's tax, claims, and permit activities, is entrusted with providing reasonable assurance to TTB and its stakeholders that tax collections are recorded timely, accurately, and completely. The Bureau's Revenue Accounting Section (RAS), which operates under the Chief Financial Officer, tracks and accounts for the \$15 billion in annual tax collections, and processes business transactions for refunds, cover-over payments to Puerto Rico and the Virgin Islands, and write-offs.

To fulfill these responsibilities, TTB developed and implemented two distinct customized risk assessment and internal control evaluation tools for both the NRC and the RAS. The objective

of these tools is to minimize risk and improve program results by promoting a robust internal control environment with periodic monitoring, assessment, and implementation of effective policies and controls.

First, the Bureau designed and applied the tool at the RAS to evaluate its internal control structure. The regular use of this tool will aid staff at the RAS and management in mitigating risks and identifying improvement opportunities in the area of revenue collection and accounting.

The RAS survey tool has two parts. The first section consists of a risk assessment model that identifies specific risks and the corresponding internal control techniques in place to manage and allay those risks. The second section, the internal control evaluation, covers each of the five Government Accountability Office standards on internal controls through more than 100 Bureau-specific questions on internal procedures, policies, and business practices. Based upon responses to the survey questions, the tool automatically generates a score. The score translates to a risk level of Low, Medium, or High.

In June 2008, TTB used the tool to conduct a risk assessment of TTB's revenue accounting operations. The assessment of the RAS disclosed that acceptable and reasonable internal control techniques had been consistently applied to mitigate risks and categorized TTB's accounting practices as "Low Risk" for FY 2008. This score confirmed that operations within TTB's RAS were functioning as planned, and that the organization is accomplishing the overall Bureau mission to "Collect the Revenue."

Also in FY 2008, TTB used the RAS model to design a risk assessment tool for the entire NRC. Using the same framework, the NRC defined potential risks and mitigating factors and developed a custom internal controls survey to assess the level of overall risk to the Bureau's permit, bond, and collection activities. The NRC survey tool consists of more than 250 questions on internal procedures, policies, and business practices covering these operations. TTB will implement this survey tool in FY 2009.

The survey tools for both the RAS and NRC are living documents, requiring annual reviews and updates to ensure they are current and accurate. By completing this exercise each year, TTB will continue to provide a strong control environment that supports mission needs and minimizes program and financial risks.

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## **Web Site Exceeds e-Gov Benchmarks for Customer Satisfaction**

The TTB Web Services Team draws its direction for Web enhancements from customer feedback provided by the American Customer Satisfaction Index (ACSI) survey—an online survey provided at random to TTB.gov visitors.

This customer-centric approach to Web design has proven effective, with survey scores trending upward in FY 2008 to an all-time one-month high of 76. TTB also uses the ACSI survey to compare its site to 160 other Web sites, including those of Federal Government agencies. For the first time since implementing the survey in 2004, TTB's Web site met or surpassed the ACSI benchmarks in the third quarter of 2008 for customer satisfaction among e-Government sites.

TTB attributes the increase in visitor satisfaction to several new site features developed and published on TTB.gov throughout FY 2008. Based on TTB's analysis of the online survey results, the Web Services Team designed two entirely new sections to address the needs of two major customer segments—new visitors to the TTB Web site and members of the public.

With nearly half of our Web visitors identifying themselves as new to the site, TTB built the New Visitors Guide to provide an overview of TTB.gov and a pathway to popular links, organized by audience and interest. Visitors can also take a narrated virtual tour of TTB.gov. Another core audience assisted by the New Visitors Guide are small business owners—craft brewers, artisan distillers, start-up wineries—who need help understanding and complying with the Federal requirements for engaging in manufacturing or importing alcohol beverages.

Additionally, to serve those site visitors who are looking to enter one of the TTB-regulated industries, we developed and added to the Web site in November 2007 online application packets to streamline the process of applying for a permit. As the branch of TTB responsible for processing permits, claims, and special tax returns, the National Revenue Center developed packets that combine the required forms with instructions and resources to aid new industry members in filing an acceptable application.

To get our message to a growing segment of TTB's Web audience, the public, TTB created a Consumer Corner section that explains how Federal regulations and laws protect consumers. Recognizing the renewed interest in labeling of alcohol beverages, TTB developed pamphlets on reading and understanding the claims made on wine, beer, and distilled spirits labels. This section also describes how TTB monitors and tests domestic and imported alcohol beverage products in the marketplace, and provides instructions on how a consumer should file a product complaint or report suspected illegal activity.

## **“TTB Tobacco News” Brings the Latest to the Industry**

TTB employees are always on the lookout for simple, economical ways to keep the industry attuned to events at TTB and current issues facing the regulated industries. Our investment in outreach includes the publication of several weekly and monthly newsletters. In FY 2008, we added a new circular to our list: TTB Tobacco News.

The newsletter speaks directly to State tobacco regulators and members of the tobacco industry. TTB initiated the newsletter to better serve this sector of industry members, and as part of a broader effort to reinvigorate the tobacco program at TTB.

TTB Tobacco News brings the latest from TTB regarding tobacco as well as related State and national news. In each issue, TTB experts provide a summary of major happenings in the tobacco industry, including regulatory updates, court decisions, changes to State law, and more.

Every quarter, TTB publishes a new edition online at TTB.gov. We also offer the newsletter by e-mail subscription, so visitors can choose to have the latest electronic copy delivered straight to their e-mail inbox.

# TTB 2008 Performance & Accountability Report

## TTB Monitors Market Compliance through Sampling Programs

In order to better protect consumers, TTB established and piloted two new market-based sampling programs—the Alcohol Beverage Sampling Program (ABSP) and the Alcohol Beverage Advertising Program (ABAP). The purpose of these programs is to determine if advertising, labeling, and product content are in compliance with Federal laws and regulations across the distilled spirits, malt beverage, and wine industries.

In the first year, both programs focused on imported and domestic distilled spirits. In FY 2009, the Bureau will evaluate malt beverages, followed by wine in FY 2010. TTB will review each commodity on a three-year cycle for comparison purposes.

To determine label and content compliance within the distilled spirits industry, under the ABSP, TTB used probability sampling to select and purchase products from the marketplace. Our specialists then compared the product sample to the approved label on file in the TTB database. Product samples were also sent to the TTB laboratory for analysis to determine if the label accurately represented the contents of the bottle. This program has enabled TTB to determine the compliance level of distilled spirits products available to consumers and to more effectively target noncompliant industry members.

The new ABAP estimates overall advertising compliance by commodity and media. This program uses a statistical sampling method to draw combined samples of domestic producers' and importers' advertisements in five media types: television, print, Internet, outdoor (billboard), and radio. The Bureau can now focus its limited resources more effectively to address inaccurate or misleading claims on alcohol beverage advertisements.

Based on this year's ABSP, the Bureau found, with 95 percent confidence, that the overall compliance rate for labels and content (excluding samples with inaccurate proof), is 87 percent.\* The ABAP revealed with 95 percent certainty that the compliance rate for all distilled spirits advertisements is 82 percent.\* The results of the pilot studies for these programs on distilled spirits products will provide baseline data for comparative use in the future.



The Market Compliance Office works to ensure that products comply with Federal labeling and advertising requirements.

\* The precision, or range within which lies the true value of the subject measurement, for these findings is  $\pm 4$  percent.

# TTB 2008 Performance & Accountability Report

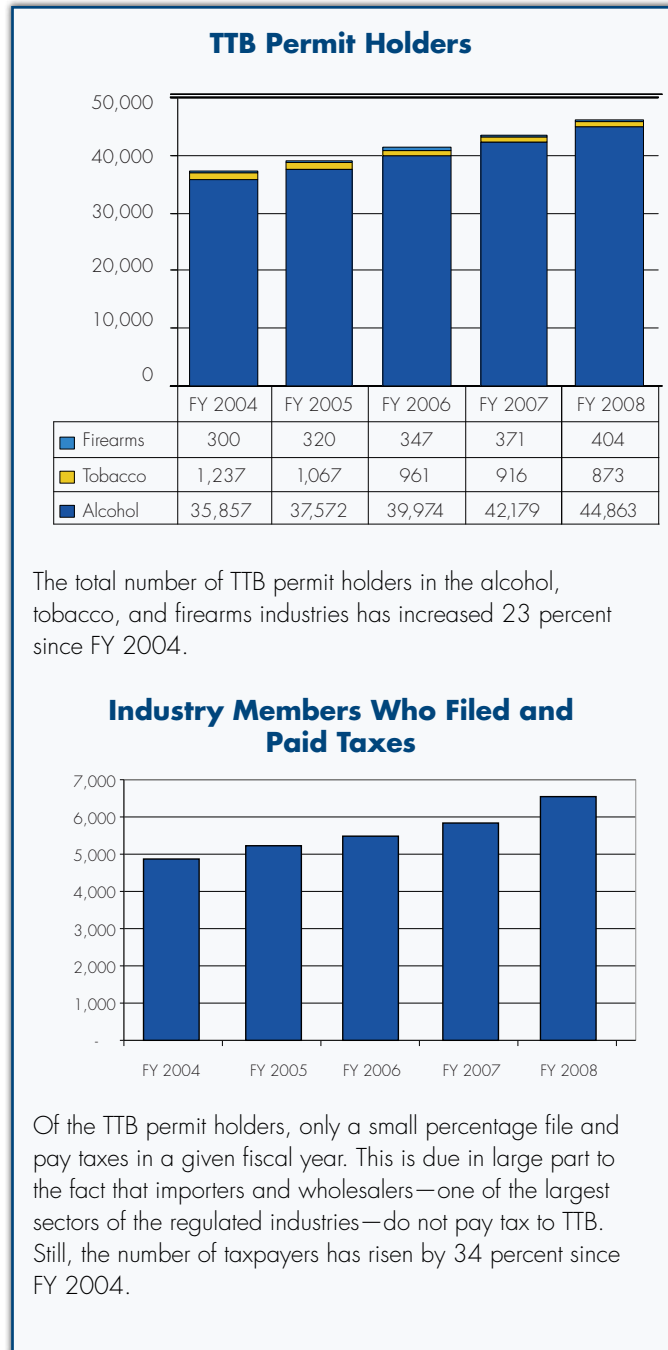
## PERFORMANCE SUMMARY

### Collect the Revenue

TTB met all of its performance measures under the *Collect the Revenue* activity.

Investments in the Collect the Revenue mission resulted in several accomplishments during FY 2008:

- TTB collected \$14.6 billion in excise taxes, interest, and other revenues from approximately 6,500 taxpayers in the alcohol, tobacco, firearms, and ammunition industries who filed a tax return and paid excise tax.
- TTB expanded the e-filing capability to allow all excise taxpayers to file and pay taxes, and file monthly operational reports, electronically through the Pay.gov system. The total number of Pay.gov registrants is over 3,600.
- Taxpayers submit 98 percent of all TTB collections electronically, through channels such as Fedwire or Pay.gov. In FY 2008, TTB negotiated a new contract with a financial institution to convert all paper receipts to a digital format for processing.
- In measuring voluntary compliance, TTB reported a compliance rate of 94 percent among its largest taxpayers in filing timely tax payments.
- TTB processed \$373 million in cover-over payments to Puerto Rico and \$7.6 million to the Virgin Islands. Federal excise taxes collected on rum produced in Puerto Rico and the Virgin Islands and subsequently brought into the United States are “covered-over” (or paid into) the treasuries of Puerto Rico and the Virgin Islands.



# TTB 2008 Performance & Accountability Report

- TTB processed \$283 million in drawback claims. Under current law, persons who use distilled spirits in the manufacture of medicines, food products, flavors, extracts, or perfume and other non-potable products may be eligible to claim drawback of most of the excise taxes paid on distilled spirits used in their products.
- The Tax Audit Division (TAD) and Trade Investigations Division (TID) initiated approximately 1,500 investigations and audits. TAD completed 179 audits, which comprised 95 percent of its audit plan for FY 2008. TID initiated 285 revenue-related investigations, many of which involved small producers, tobacco importers, and claim verifications that did not fall under TAD's operating plan. These cases resulted in the initiation of 67 adverse actions against applicants or taxpayers. TTB also closed 32 investigations and audits by Offers-in-Compromise, or closing agreements, for a total of approximately \$11.3 million in additional collections. In total, these closed cases resulted in additional revenue of \$19.4 million.
- TID investigators verified over \$2 million dollars in claims and \$172 million in proper tax payments.
- The Trade Analysis and Enforcement Division (TAED) sponsored two information-sharing conferences on alcohol and tobacco diversion matters. Representatives from State revenue and enforcement agencies and Federal regulatory and enforcement agencies attended both conferences. Information shared at these events will enhance our diversion program as well as build coalitions with other agencies.
- TTB laboratories analyzed 2,012 beverage alcohol samples for product integrity, pre-import analysis, and Section 5010 tax credit determinations. TTB also analyzed 457 tobacco product samples for tax classification and rulemaking support. The Nonbeverage Products Laboratory completed analyses on 13,572 nonbeverage alcohol samples for drawback claims or specially denatured alcohol formulas. TTB laboratories review formulations or analyze alcohol and tobacco products to ensure compliance with TTB regulations.

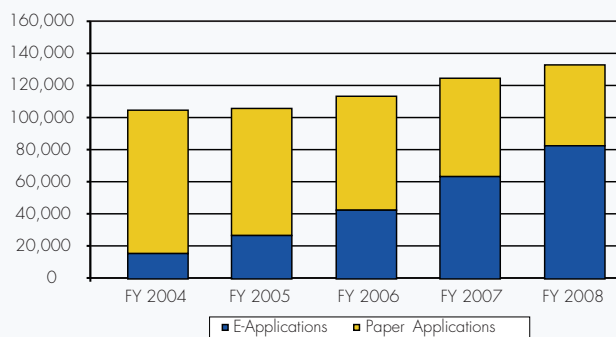
## Protect the Public

TTB met all of its performance measures under the *Protect the Public* activity.

Investments in the Protect the Public mission resulted in several achievements during FY 2008:

- TTB processed 133,427 COLA applications; 21 percent were either rejected, returned for correction, withdrawn, expired, or surrendered. Sixty-two percent of the COLA applications received were submitted through COLAs Online, the Bureau's system

### Certificate of Label Approval Applications



Since FY 2004, the Bureau has experienced a 31 percent rise in the number of Certificate of Label Approval (COLA) applications submitted by the alcohol beverage industry and processed by TTB.

# TTB 2008 Performance & Accountability Report

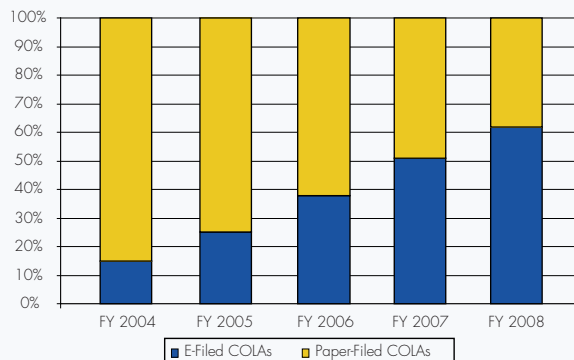
for the electronic filing of label applications. TTB exceeded its FY 2008 performance target by 119 percent in this area.

- TTB issued 4,600 original and 21,400 amended permits. TTB averaged 64 days to process original permit applications. TTB issues original and amended permits to persons who are engaged in the alcohol and tobacco industries. As illicit activity in these industries has the potential to be highly lucrative, it is crucial that TTB prevent organized crime and terrorists from commencing operations.
- TTB investigators initiated more than 900 field investigations in the following areas:

**Product Integrity:** TID initiated 510 product integrity investigations in FY 2008. TID obtained 499 samples of alcohol beverages, of which 115 were found by the TTB Compliance Laboratory to be non-compliant with Federal requirements. TID also responded to 22 consumer complaints relating to alcohol beverages.

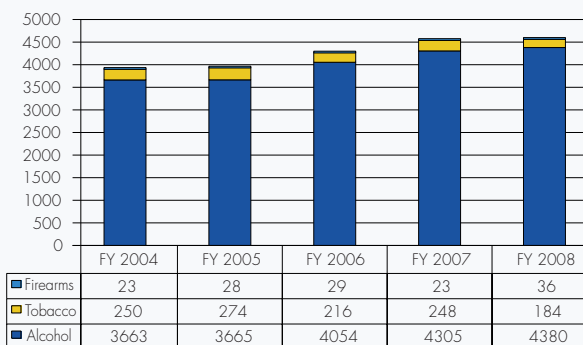
**Application Investigations:** TID initiated more than 420 application investigations to verify that the applicants were qualified and not prohibited from engaging in business activity. As a result of these investigations, 29 applications were withdrawn or abandoned, 11 were recommended for denial, and 25 applications were approved after significant changes. TTB approved the remaining applications with little or no corrections needed.

## Percent of Paper and Electronically Filed Certificate of Label Approval Applications



The Bureau's education efforts have resulted in the usage rate for COLAs Online increasing from 15 percent in FY 2004 to 62 percent in FY 2008.

## Number of Original Permits Issued by TTB



The number of original permit applications issued by TTB has grown 17 percent in 5 years.



# TTB 2008 Performance & Accountability Report

## FINANCIAL SUMMARY

### Federal Excise Tax Collections

TTB collects excise taxes from the alcohol, tobacco, firearms, and ammunition industries. In addition, the Bureau collects Special Occupational Tax (SOT) from certain alcohol and tobacco businesses. During FY 2008, TTB collected nearly \$14.6 billion in taxes, interest, and other revenues.

Substantially all of the taxes collected by TTB are remitted to the Department of the Treasury General Fund. The firearms and ammunition excise taxes (FAET) are an exception. This revenue is remitted to the Fish and Wildlife Restoration Fund under provisions of the Pittman-Robertson Act of 1937.

### FY 2008 Excise Tax Collections:

Alcohol.....	\$7,420,576,000
Tobacco.....	\$6,851,705,000
FAET.....	\$312,622,000
SOT. <sup>2</sup> .....	\$448,000
Other.....	\$634,000
<b>TOTAL.....</b>	<b>\$14,585,985,000</b>

### Refunds and Other Payments

During FY 2008, TTB issued \$681,558,000 in refunds, cover-over payments, and drawback payments.

### Cover-over Payments

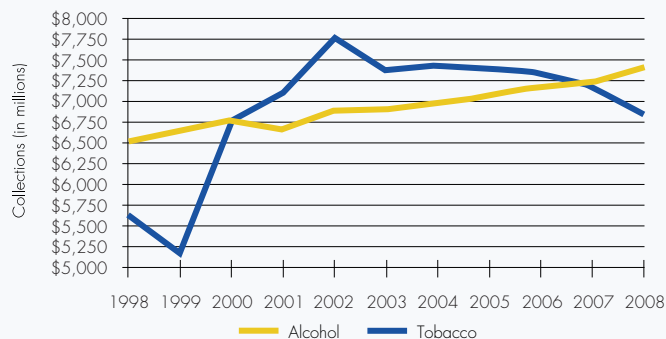
Federal excise taxes are collected under the Internal Revenue Code of 1986, 26 U.S.C., on certain articles produced in Puerto Rico and the Virgin Islands, and brought into the United States. In accordance with 26 U.S.C. 7652, such taxes collected on rum imported into the U.S. are “covered over,” or paid into, the treasuries of Puerto Rico and the Virgin Islands. During FY 2008, cover-over payments totaled \$381 million.

### Drawback Payments

Under current law, 26 U.S.C. 5134, Manufacturers of Nonbeverage Products (MNBPs) may be eligible to claim a refund of tax paid on distilled spirits used in their products.

<sup>2</sup> On July 2, 2005, legislation was enacted that suspended SOT for most alcohol taxpayers, mainly retail distributors. The law repealed SOT for all alcohol taxpayers effective July 1, 2008. However, the SOT relating to tobacco permittees (manufacturers, importers, and export warehouses) remained intact.

### Alcohol and Tobacco Excise Tax Collections

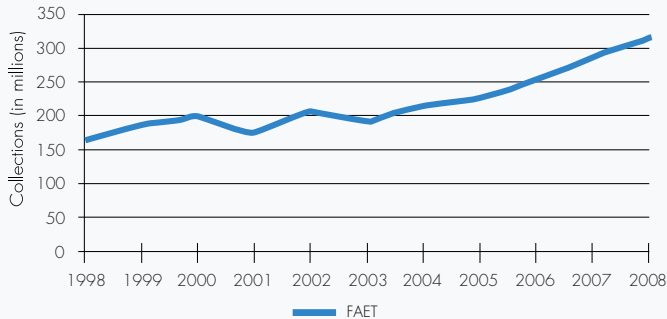


TTB’s tax collections for alcohol beverages have steadily increased for several years. The beer industry posted a second consecutive year of growth. The 1.2 percent gain in beer sales directly correlates to a modest increase in TTB tax revenues. The market for distilled spirits has grown for 11 consecutive years, and this growth is contributing to the rise in domestic tax collections at a rate of 1.5 to 2.5 percent annually. The market for wine is also expanding, but mainly in the area of imported wines. The tax for imported wine is collected by U.S. Customs and Border Protection.

Tobacco tax revenues have been trending downward for the past five years, following a period of rising revenue triggered by two tax rate increases that went into effect in 2000 and 2002. The erosion of tobacco collections stems from public policy changes toward tobacco, and declining consumption. Also contributing to the decline in revenue is the diversion of domestic and foreign tobacco products, which impacts legitimate tax collections.

# TTB 2008 Performance & Accountability Report

## Firearms and Ammunition Excise Tax Collections



Retail sales analysis indicates that gun sales strongly correlate to changes in the political landscape in the United States. Specifically, gun sales rise when citizens perceive an oncoming challenge to their Second Amendment right to bear arms. The upward trend for FAET collections reflects this phenomenon, as tax revenues have increased in relation to the recent rise in gun sales.

During FY 2008, drawback payments totaled \$283 million. In the case of distilled spirits, on which the tax has been paid or determined, a drawback is 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 drawback payment is made upon the claimant providing evidence that the distilled spirits on which the tax has been paid or determined is unfit for beverage purposes, or was used in the manufacture of medicines, medicinal preparations, food products, flavors, flavoring extracts, or perfume. The claimant must submit a product formula to the TTB laboratory for analysis and approval of the nonbeverage claim.

Alcohol and Tobacco - Excise Tax Refunds	\$14,125,000
Cover-over Payments - Puerto Rico	\$373,418,000
Cover-over Payments - Virgin Islands	\$7,615,000
Drawbacks on MNBP - Claims	\$283,462,000
Interest and Other Payments	\$2,938,000
Total	\$681,558,000

## FY 2008 BUREAU BUDGET:

### Direct Appropriations

The FY 2008 TTB budget for salaries and expenses was \$ 93,515,000. The authorized full time equivalent staffing level was 544. The Bureau expended or obligated 99.7 percent of its FY 2008 budget, or \$93,198,000.

### Offsetting Collections and Reimbursable Accounts

During FY 2008, the Bureau realized offsetting collections in the amount of \$3.4 million. Those funds originated from multiple sources including recoveries from the operation of the cover-over program and other enforcement activities in Puerto Rico, and funding from the Treasury Department Executive Office of Asset Forfeiture to cover critical investments in the TTB Tobacco Laboratory and diversion training for TTB auditors and investigators. They also included funding from the Office of Technical Assistance, U.S. Treasury Departmental Offices for technical support services. TTB also received offsetting collections for miscellaneous reimbursable activity.

### Unaudited Financial Statements

The Department of the Treasury is one of 23 Federal agencies that are required by law to produce annual audited financial statements. TTB's financial activities are an integral part of the information reported on by the Treasury Department.

The independent auditor's report expressed an unqualified opinion on the Treasury Department's FY 2008 financial statements. This means that the financial information presented by the Department of the Treasury, which includes TTB, was presented fairly, in all material respects, and in conformity with accounting principles generally accepted in the U.S. The report did not disclose any material weaknesses on internal controls or reportable conditions for TTB.

For the purposes of TTB's Performance and Accountability Report, the Bureau includes "unaudited" financial information that pertains exclusively to TTB as a separate entity. This information can be 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 on the Bureau's financial operations.

### Federal Managers' Financial Integrity Act

TTB provides a "reasonable assurance" that the objectives of the Federal Managers' Financial Integrity Act have been achieved, and the Bureau is confident that it is 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.

During FY 2008, TTB designed and applied a risk management tool to the Revenue Accounting Section that identified all of the risks in the accounting and tracking of TTB's annual Federal excise tax collections. That tool disclosed that TTB has adequate internal controls in place to mitigate our risk, and that the overall risk of fraud, waste, and abuse is characterized as "LOW."

For FY 2008, TTB did not have any reportable conditions related to internal controls and no reportable instances of non-compliance with laws and regulations that could have a direct and material effect on our financial statements.

## CHALLENGES

This section is reserved to focus on the TTB's most serious management and performance challenges, as identified by the Inspector General's Office. For FY 2008, TTB received no reported serious performance challenges or related audit issues from Treasury's Inspector General.

## Part II: Performance Goals, Objectives, and Results

### PERFORMANCE OVERVIEW

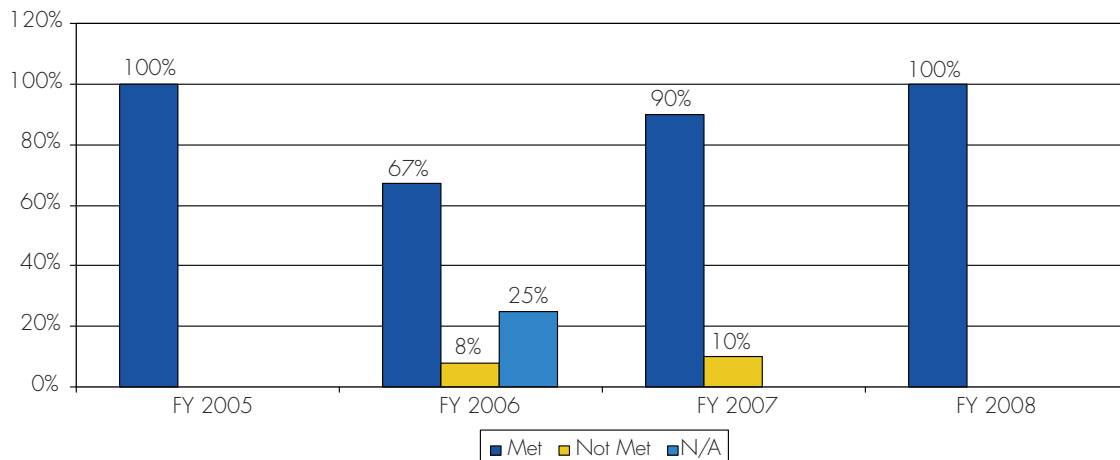
TTB revised its suite of measures in fiscal year 2008 to better reflect operating conditions at TTB. The new suite includes two original performance measures under the Protect the Public program, one of which surveys customer satisfaction with service from the National Revenue Center and another that indicates the Bureau's ability to address non-compliance from tobacco importers. TTB also streamlined the measures for the Collect the Revenue mission, and developed new compilation methods that account for current business practices.

The evaluation of the Bureau's performance measures also resulted in the discontinuation of nine measures reported in the prior fiscal year. Five of the discontinued measures were replaced by new measures that revised the assumptions used to calculate the Bureau's actual performance. The remaining four measures either lost their utility or were otherwise outdated.

Of the six measures that TTB reports externally, TTB met or exceeded the performance targets for FY 2008, including five measures for which the Bureau established baselines this year.

FY 2008 Performance Measure Status	
Performance Targets Met	6
Performance Targets Not Met	0
Baseline	5
Total Performance Measures	6

### Performance Measure Trends – FY 2005 to FY 2008



# TTB 2008 Performance & Accountability Report

## Summary of Collect the Revenue Performance

TABLE 1.1

Performance Measure	FY 06	FY 07	FY 08		FY 08 Target Met?	% of Target Reached	FY 09
			Plan	Actual			
Amount of revenue collected per program dollar			Baseline	\$313	Y	-	\$300
Percentage of voluntary compliance from large taxpayers in filing timely and accurate tax payments (in terms of revenue)			Baseline	94%	Y	-	92%
Percentage of total tax receipts collected electronically	98%	98%	Discontinued		N/A	N/A	N/A
Percentage of voluntary compliance in filing timely and accurate tax payments in terms of revenue	87.2%	86.3%	Discontinued		N/A	N/A	N/A
Percentage of voluntary compliance in filing timely and accurate tax payments in terms of the number of compliant industry members	75.95%	75%	Discontinued		N/A	N/A	N/A
Unit cost to process an excise tax return	\$76	\$61	Discontinued		N/A	N/A	N/A
Resources as a percentage of revenue	.31%	.31%	Discontinued		N/A	N/A	N/A
Cumulative percentage of excise tax revenue audited over three years	93%	16%	Discontinued		N/A	N/A	N/A

### Performance Discussion

TTB devoted considerable time and effort in fiscal year 2008 to reviewing its performance measures and developing more precise indicators of how effectively the Bureau conducts its tax collection responsibilities. The new Collect the Revenue performance measures use updated assumptions to better reflect current conditions and practices in the filing and payment of excise taxes. Of the six measures under the Collect the Revenue goal that TTB discontinued in FY 2008, three were superseded by updated measures.

The first new measure, “Amount of revenue collected per program dollar,” refines the compilation methodology of the discontinued measure “Resources as a percentage of revenue” and incorporates the Bureau’s new accounting code structure. The new structure enables the Bureau to retrieve from its financial, travel, and timekeeping systems more precise data related to the cost of TTB’s tax collection activities, including direct program expenses and overhead costs.

The new calculation method also offers a more recognizable result—the return on investment for the Collect the Revenue program. In fiscal year 2008, TTB established a baseline for this measure and calculated an actual return of \$313 in collected tax revenue for every dollar TTB expended on this program.

The second active measure, “Percentage of voluntary compliance from large taxpayers in filing tax payments timely and accurately (in terms of revenue),” demonstrates the level of voluntary compliance exhibited by TTB’s largest taxpayers. TTB discontinued its two original voluntary compliance measures in favor of this approach for several reasons. First, new legislation that allows qualified industry members to file tax

# TTB 2008 Performance & Accountability Report

returns on a quarterly basis nullified the assumptions regarding the frequency of payment made in the prior compilation methodology. Secondly, the new measure centers on “large” taxpayers owing more than \$50,000 in excise tax annually. This group has less flexibility in the method and frequency of payment, eliminating the need for estimation in reporting the percentage of voluntary compliance. Also, large taxpayers constitute 99.6 percent of annual TTB tax collections, which provides a reasonable approximation of the entire industry’s level of compliance.

TTB elected to discontinue several measures in FY 2008. After performing well in the prior fiscal year, TTB discontinued its unit cost measure in FY 2008 to streamline its measures and develop indicators that better represent the Bureau’s performance. Also, the measure methodology requires revision due to recent legislation that authorized small industry members to file tax returns less frequently. As the unit cost is driven by the number of filed returns, TTB will revisit this measure and its method as the industry transitions to this new standard.

In addition, TTB discontinued the measure, “Cumulative percentage of excise tax revenue audited over three years,” in FY 2008 because TTB’s historical audit results have shown more pervasive industry member non-compliance and potential excise tax liability among small and mid-size taxpayers, as well as among those operating outside the regulatory system. By discontinuing this external measure, TTB has the flexibility to leverage its limited resources to audit the high-risk industry members identified in risk models while still maintaining a visible presence with the largest taxpayers.

The revision process also resulted in the discontinuation of the measure related to the percentage of total tax receipts collected electronically. The Bureau determined that its goal in measuring our performance in electronic funds transfer (EFT) collections has been met, and the utility of the measure had expired.

# TTB 2008 Performance & Accountability Report

## Summary of Protect the Public Performance

TABLE 1.2

Performance Measure	FY 06	FY 07	FY 08		FY 08 Target Met?	% of Target Reached	FY 09
			Plan	Actual			
Percent of electronically filed Certificate of Label Approval (COLA) applications	38%	51%	52%	62%	Y	119%	53%
National Revenue Center customer service survey results			Baseline	90%	Y	–	85%
Average number of days to process an original permit application at the National Revenue Center			Baseline	64	Y	–	72
Percentage of importers identified by TTB as illegally operating without a Federal permit			Baseline	22%*	Y	–	20%
Percentage of COLA applications processed within nine calendar days of receipt	44%	42%	Discontinued		N/A	N/A	N/A
Percentage of permit applications (original and amended) processed by the National Revenue Center within 60 days	86%	85%	Discontinued		N/A	N/A	N/A
Unit cost to process a Wine COLA	N/A	\$34	Discontinued		N/A	N/A	N/A

\* TTB added this measure in February 2008, and completed its baseline in December 2008, following the publication of the Treasury Department's annual performance report.

### Performance Discussion

In revising its suite of performance measures, TTB added two original measures in FY 2008 to indicate the Bureau's level of success in meeting its consumer protection mission goals. The evaluation also resulted in the discontinuation of three performance measures that represented outdated operating conditions, one of which was replaced with a new customer-oriented measure and another that was updated with revised methodology.

In FY 2008, the TTB National Revenue Center (NRC) initiated a customer survey to measure satisfaction with processing times and the level of service provided to the industry. The survey solicits feedback in two areas: 1) how well TTB specialists assist applicants in filing for an original or amended permit, and 2) how TTB serves industry members who file claims to recover taxes paid on nonbeverage alcohol or overpayments of tax. Based on responses captured by the NRC through telephone interviews, TTB earned a composite score of 90 percent for permits and claims processing.

# TTB 2008 Performance & Accountability Report

Under the new Trade Analysis and Enforcement Division (TAED), TTB commenced a new program in fiscal year 2008 that involves monitoring the compliance level among importers. TTB also implemented a new measure to track the program's effectiveness. Focusing exclusively on tobacco importers in the first year, TTB intelligence analysts found 105 instances, or 22 percent of importations, that involved an importer who brought product into the United States without an approved permit from TTB. Our specialists made these determinations by comparing permit data in TTB's tax system to the information on file in the U.S. Customs and Border Protection's International Trade Database System. TTB sent cease and desist letters to each illegal importer identified by TAED, and took the appropriate follow-up actions to ensure that all either came into compliance with the Federal permit requirement or ceased operations.

TTB replaced one of the discontinued Protect the Public measures in order to continue tracking its level of service to permit applicants: "Percentage of permit applications (original and amended) processed by the National Revenue Center within 60 days." The 60-day standard for processing original and amended permit applications grew to be unrealistic due to significantly increasing applications with no corresponding increase in authorized staffing levels at the NRC. TTB used FY 2008 results to baseline the new measure and, despite an average annual growth of eight percent in permit applications, achieved a 64-day turnaround time for original permits.

TTB also chose to discontinue the measure, "Percentage of COLA applications processed within nine calendar days of receipt," in FY 2008. The nine-day standard for processing COLA applications, set in the 1990's, is no longer representative of staffing or workload levels, given that the number of COLA applications has risen 25 percent in the past three years alone. TTB replaced this customer service measure with another customer-oriented measure, "National Revenue Center customer service survey results."



## PROGRAM ASSESSMENT RATING TOOL

As part of the President’s Management Agenda, the Program Assessment Rating Tool (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.

### How TTB Uses PART Evaluations

Through the use of in-depth performance questions, the 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.

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.

The Office of Management and Budget then assigns a score of effective, moderately effective, adequate, results not demonstrated, or ineffective.

In 2005, TTB completed its first PART review for the “Collect the Revenue” activity and received the highest rating possible—effective.

TTB maintains a series of action items to enhance its key programs, revisiting and updating the improvement plans biannually to demonstrate the actions that TTB has taken to improve program performance.

Program	Bureau	Rating	Date Completed
Consumer Product Safety Activities (Protect the Public)	ATF	Adequate	FY 2002
Collect the Revenue	TTB	Effective	FY 2005

PART Program Name: *Collect the Revenue*

**Rating:** Effective

### Improvement Plans

**Plan 1:** Develop targets and baselines for new performance measures.

**Status:** TTB developed two new outcome-oriented performance measures for the Collect the Revenue program and established baselines using FY 2008 data. Results for FY 2008 are available in this report and also published online at the OMB ExpectMore.gov Web site.

# TTB 2008 Performance & Accountability Report

**Plan 2:** Establish a Web-based “Dashboard” that will report TTB service standards, relevant performance measures, and other key bureau information such as workloads, so that stakeholders and customers can easily navigate from summary information to reports and/or other analytics.

**Status:** TTB initiated the design phase of its performance “Dashboard” in FY 2008, and is targeting completion of the first release in FY 2009. The dashboard will be developed and deployed in several stages, the first of which is targeted toward enabling TTB employees and managers immediate online access to current and historical performance and workload data.

**Plan 3:** Update TTB’s Web site to enhance search and navigation; improve content and format; redesign TTB.gov homepage; and employ plain language.

**Status:** TTB performed ongoing updates to the TTB.gov Web site to enhance usability and content, and added two new navigation aids—the New Visitor Guide and the Consumer Corner. TTB achieved for the first time in FY 2008 an overall visitor satisfaction score that exceeded the benchmark for Federal agencies participating in the American Customer Satisfaction Index survey.

**Plan 4:** Develop a survey to identify the level of potential risks for non-compliance with internal control standards set by the Federal Managers’ Financial Integrity Act and the Government Accountability Office for TTB’s Revenue Accounting Section (RAS). The survey will facilitate improvements in mitigating control techniques over the accounting for approximately \$15 billion in Federal excise tax collections and help ensure organizational goals for the Collect the Revenue program are achieved. The RAS is responsible for assuring revenue transactions are recorded timely, accurately, and completely.

**Status:** TTB developed the RAS risk assessment survey tool in FY 2008. TTB used the survey to assess the risks and controls in place to track and account for the \$14.6 billion in annual Federal excise tax collections. The survey results indicated that the internal controls in the Office of the Chief Financial Officer are adequate and that our overall risk factor is “LOW.”

PART Program Name: *Protect the Public*  
(formerly known as the ATF Consumer Product Safety Program)

**Rating:** Adequate

## Improvement Plans

**Plan 1:** Establish baselines and targets for new performance measures.

**Status:** TTB developed two new outcome-oriented performance measures for the Protect the Public program that will be baselined in FY 2008. The first of these two measures reports on the average number of days to process an original permit. TTB reported a turnaround of 64 days. The second measure will help TTB identify importers conducting international trade without a lawful permit. Baselines and targets for this measure will be finalized in the first quarter of FY 2009.

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# TTB 2008 Performance & Accountability Report

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**Plan 3:** Update TTB’s Web site to enhance search and navigation; improve content and format; redesign TTB.gov homepage; and employ plain language.

**Status:** TTB performed ongoing updates to the TTB.gov Web site to enhance usability and content, and added two new navigation aids—the New Visitor Guide and the Consumer Corner. TTB achieved for the first time in FY 2008 an overall visitor satisfaction score that exceeded the benchmark for Federal agencies participating in the American Customer Satisfaction Index survey.

**Plan 4:** Implement a new process to seek feedback through the use of customer satisfaction surveys for label and formula approval applications at the Advertising, Labeling, and Formulation Division. Incorporate customer feedback to help ensure program services are prioritized to effectively target available resources, and ensure business processes operate effectively within prescribed standards of performance.

**Status:** TTB initiated market research to determine options for conducting a customer survey on the services the Bureau provides to industry, such as permit processing and label approval. TTB is awaiting an internal decision to proceed with funding this project.

## MANAGEMENT AND ORGANIZATIONAL EXCELLENCE

Part of the TTB mission is to create the conditions necessary for programs to reach and sustain excellence. In all aspects of performing its mission, TTB aims to ensure that its programs operate efficiently and effectively, and with full accountability. TTB accomplishes this by ensuring that program offices receive the high-quality management and administrative support needed to achieve the Bureau's goals. Further, TTB established the Office of Inspection to conduct internal office reviews and sub-program audits to monitor compliance with Federal mandates, as well as Treasury and bureau policy. The Bureau uses the findings to maintain program integrity and improve operations.

The Bureau's objectives in the area of Management and Organizational Excellence align with the five initiatives of the President's Management Agenda (PMA), an aggressive strategy designed to improve Federal management and deliver results to the American people. The PMA contains the following Government-wide initiatives:

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

TTB embraces the principles represented by these initiatives, and looks for opportunities to innovate and improve how the Bureau operates. Through the Management and Organizational Excellence mission, the Bureau addresses each aspect of the PMA initiatives and demonstrates its determination to enhance efficiency and reduce costs in order to direct every budget dollar possible toward mission completion.

### Strategic Management of Human Capital

TTB developed a Human Resources Division Strategic Plan through FY 2012 that outlines strategic goals, strategies to achieve the goals, and measures of results.

As the majority of TTB's human resource functions are operated through the Bureau of Public Debt (BPD), TTB establishes and updates, as appropriate, performance benchmarks and measures to monitor these outsourced functions.

In April 2008, the first collective bargaining agreement between TTB and the National Treasury Employees Union (NTEU) went into effect, and will stand for a four-year period. TTB briefed managers on the provisions of the new Labor/Management Agreement with NTEU. TTB also arranged the first Labor/Management Partnership Council meeting between TTB and NTEU under the provisions of the new Labor Management Agreement.

The Bureau's Human Resources Division completed the Office of Personnel Management (OPM) 2008 Performance Appraisal Assessment Tool evaluation and reporting. TTB received overall positive feedback from Treasury on its General Schedule Performance Management Program.

TTB's human resources program also was evaluated by Treasury in conjunction with OPM during July and August 2008. TTB prepared informative materials and coordinated focus groups of employees and supervisors for onsite interviews. Feedback received from the Deputy Assistant Secretary for Human Resources/Chief Human Capital Officer indicated a strong and successful human capital program evidenced by the TTB leadership's commitment to effective human capital management.

During FY 2008, the Bureau developed and conducted refresher training on TTB's automated

# TTB 2008 Performance & Accountability Report

performance management system for all Tax Audit Division, National Revenue Center, and Advertising, Labeling and Formulation Division supervisors. In addition, TTB published a Performance Management Order for General Schedule Employees and conducted training on the new program for supervisors and employees. Through this training, employees were advised of the uniform rating period adopted by the Bureau. All employees are now on the same rating cycle instead of individual rating cycles linked to the date of their last within grade increase.

TTB issued a number of other significant human resources policies during FY 2008, several of which required negotiation with NTEU. These included the TTB orders related to the Performance Management Program for General Schedule Employees, Actions Based on Unacceptable Performance, Employee Disciplinary and Adverse Actions Based on Employee Misconduct, and the Pay Demonstration Project. The Bureau also reviewed all 23 human resources orders to ensure they are current.

TTB continues to exceed the OPM hiring goal of 45 days with an overall average of 25 days, improving its prior year performance by 12 days.

TTB ranked 10th out of 222 agency subcomponents in the 2007 Rankings of the Best Places to Work by the Partnership for Public Service. The FY 2008 rankings were not available for this publication.

The Bureau also developed a Federal Human Capital Survey Action Plan for FY 2008 and ensured the identified actions were completed as planned.

In addition, TTB was the first bureau to undergo an audit as part of the Department's new evaluation of bureaus' Equal Employment Opportunity (EEO) programs. Preliminary feedback indicated positive results and an overall effective rating of the Bureau's EEO/Diversity Program.

TTB's Mentoring Program continues to help promote the development of employees through a one-on-one approach which guides, motivates, and strengthens relationships to accomplish the Bureau's mission.

During the early part of the fiscal year, TTB worked with the Department and other Treasury bureaus in the design and implementation of the new Treasury Learning Management System (TLMS). TTB played a crucial role in the testing of the system prior to implementation. TLMS was deployed in October 2007, and the Office of Training and Professional Development (TPD) conducted numerous training sessions for supervisors and managers on the new system.

TTB also revised its Emerging Leader Program (ELP) for TTB non-supervisory employees, front-line supervisors, and mid-level managers/senior leaders. The new ELP is a certificate program that is comprised of competencies critical for effective leadership and will prepare participants for higher levels of responsibility. It is a three-year program that will prove to be an effective succession planning tool that will aid the Bureau in preparing its leaders to perform in new roles and at more challenging levels.

## **Competitive Sourcing**

In setting up the Bureau, TTB relied heavily on outsourcing to commercial and Government service providers to handle its administrative and information technology requirements. This outsourcing model also had to ensure the delivery of high-quality support and technical services necessary to meet TTB program demands.

Since 2004, the Bureau of Public Debt Administrative Resource Center (BPD ARC) has been a partner in providing accounting, payroll, human resource (HR), procurement, and travel services to the Bureau. This partnership goes beyond systems to include staff support of our administrative and financial services. Under this model, TTB retains a small, inherently governmental workforce in its administrative support functions.

# TTB 2008 Performance & Accountability Report

In addition, the Bureau uses the Treasury Enterprise HR system, or HR Connect, along with the Treasury's Pay.gov system to complete its mission. TTB also elected to use Government service providers to meet its needs relative to training requirements and EEO complaint processing. By using the enterprise solutions already available, TTB has no need to develop unique accounting and management support systems. This approach also allows the organization to focus on core business matters without the distraction of issues related to maintaining administrative support systems.

The business model used for the Bureau's Information Technology office is to outsource the entire IT infrastructure operation and program management functions to the private sector. The remaining few Government positions are considered inherently governmental.

The Bureau will maintain a streamlined workforce by continuing to foster partnerships with other Government entities and with the private sector; however, TTB has determined that most of its core business of Federal excise tax collection, as well as its regulatory functions, are inherently governmental. As such, TTB has no plans to outsource these responsibilities under the competitive sourcing guidelines.

## Improved Financial Performance

In FY 2008, TTB fully met its financial performance measures. Also, based on improved financial information and monitoring of its budget, the Bureau expended and or obligated more than 99 percent of its annual appropriation. TTB achieved a prompt payment rate of 99 percent or more and also attained a 99 percent or more compliance rate for electronic funds transfer.

Cash accounts at the Bureau are reconciled within 45 days after the end of the accounting period. TTB coordinated with BPD ARC to certify the accuracy and reliability of the monthly financial information reported in the Treasury Information Executive Repository, along with other financial documents. Also the Bureau met established due dates for required Financial Management Service reports.

TTB also established a new payroll projection system to determine more reliable projections of pay costs relative to ever changing on-board staffing levels. The payroll projection system has proven to be a valuable tool and its use has led to better financial information for decision making on the budget and has helped the Bureau avoid Anti-Deficiency Act violations. This tool was used as the Bureau conducted a series of financial reviews to evaluate financial plans, to identify potential liabilities, and funding sources that could be reallocated to address the Bureau's priorities in support of our mission, goals, and objectives.

By closely monitoring the Bureau's financial status, TTB was successful in making a number of key investments in support of its mission. These financial reviews were not limited to the current year's appropriation. TTB also conducted a review of prior year obligations. This endeavor led to the close out of accounts that no longer legally obligated TTB. As a result of this comprehensive effort, the Bureau was able to recover more than \$134,945 from the FY 2007 account of unobligated available balances (also known as the 50 percent account), which was used to update information technology infrastructure equipment. This required a coordinated effort by TTB, BPD, and the Financial Management Service, as well as Treasury, OMB, and Congress.

The Office of Finance and Performance Budgeting also ensured that TTB's financial reporting and audit requirements met all Federal and Departmental annual audit requirements, including OMB Circular A-123 reviews. No unresolved internal control material weaknesses or reportable conditions were found.

## Expanded Electronic Government

TTB placed into production the IRIS 3.0 application, which substantially improved the IT systems used to collect and account for the excise taxes collected by TTB.

This project integrates the Federal Excise Tax database with the Integrated Revenue Information System (IRIS) to provide a central repository for permit, tax, and operational data. Storing these data in a single place gives staff, located in offices throughout the U.S., instant access to the data needed to perform

# TTB 2008 Performance & Accountability Report

daily duties. The automation of collection information also results in fewer data entry errors and requires less review time for TTB specialists.

TTB also substantially improved the Bureau's ability to protect the public with a number of new systems and upgrades to existing regulatory systems. The Bureau also made significant progress in the development of a much needed capability to submit formulas electronically.

TTB improved business applications by placing the following additional significant application upgrades into production:

- In November 2007, TTB released version 3.1 of COLAs Online. This upgrade provided a number of usability enhancements and implemented regulatory requirements for saké.
- In March 2008, TTB implemented an updated version of the Laboratory Information Management System (LIMS). The update added additional reports and queries needed to improve the efficiency at the laboratories.
- In March 2008, TTB completed the changes required to eliminate the unnecessary use of Social Security numbers from all regulatory systems. This update was required by an OMB security mandate requiring the elimination of personally identifiable information where possible.

Additionally, OMB mandated that all agencies be capable of supporting Internet Protocol version 6 (IPv6) by June 30, 2008. IPv6 is the next language of the Internet—it is highly technical and the implementation is very complex.

In May 2008, TTB successfully transmitted data to, and received data from, the Internal Revenue Service over IPv6. This real-world test definitively proved and demonstrated our capability. The Bureau completed this requirement successfully and well ahead of schedule.

## **Budget and Performance Integration**

TTB completed a major rewrite of its strategic plan in FY 2008. To assist in this process, the Office of Management established a strategic planning team with representatives from each of TTB's directorates to develop a Master Strategic Plan for FY 2007 – FY 2012.

The team developed realistic outcomes and efficiency performance measures with detailed explanations and methodologies, which were vetted internally as well as with the Department. The plan incorporated results of the Collect the Revenue Program Assessment Rating Tool (PART) study and recommendations from the Protect the Public program evaluation conducted in FY 2006. Both of these activities offered positive improvement actions that would further TTB's mission, goals, and objectives.

In addition to developing the five-year TTB plan, the Bureau developed divisional strategic plans. Division offices established internal performance measures to gauge the effectiveness of their programs, which then mapped to the TTB plan and the Bureau's new account code structure.

TTB implemented the new account code structure and retrieved its first year of data in FY 2008. The account code structure identifies the seven key programs that encompass the Bureau's tax collection and consumer protection responsibilities. In addition to specific program information, the financial data are segmented into six major lines of business, and further carved into specific projects and spending classifications. This revised structure provides reliable, accurate, and relevant financial information for sound management decisions about programs and fiscal stewardship. The data were essential to compiling performance results and establishing program cost data, which are reported for the first time in this year's Performance and Accountability Report.

The Bureau also tied performance to budget requests, indicating performance levels before and estimated performance after implementing a budget initiative. The purpose is to provide a quantifiable result for the funding invested in TTB programs.

## MESSAGE FROM THE CHIEF FINANCIAL OFFICER



I am pleased to present TTB's FY 2008 Performance and Accountability Report, which provides an accounting of our operations and organizational performance.

We have learned much during the Bureau's first six years, and improving government performance remains a complex and difficult assignment. In a results-oriented culture, with a strong focus on accountability, we continue to work closely with the private sector, nonprofits, and other government entities to achieve optimum results.

We will continue to rely heavily on outsourcing with both the private sector and the Federal Government in order to meet our administrative and information technology requirements. There are many benefits to outsourcing that encourage the Bureau to foster these partnerships but, most importantly, outsourcing helps to ensure that we have the right talent at the right time to do the job with the highest level of fiscal accountability.

During FY 2008, TTB directed its attention to risk management and ensuring that the Bureau had mitigating internal controls in place to manage risks in achieving our strategic goals. TTB designed and implemented a risk management tool that was used to assess the risks and controls in place to track and account for the nearly \$15 billion in annual Federal excise tax collections.

We also continued to review financial operations and related business processes within the Bureau to identify areas for improved efficiency, financial and performance data integration, and internal controls to ensure unmatched reliability in financial activities. Based on our evaluation, the Bureau can provide reasonable assurance that management internal controls have been operating effectively with no material weaknesses in the design or operation of the controls over revenue collections.

We take pride in providing superior administrative support services while meeting our financial management improvement goals, and we take seriously our commitment to sound agency performance results and providing taxpayer value. We are excited about the years ahead, and the opportunity to develop and communicate new ideas for improving the management and performance of this organization.

A handwritten signature in cursive script that reads "Cheri D. Mitchell".

Cheri D. Mitchell  
Assistant Administrator, Management/Chief Financial Officer



# TTB 2008 Performance & Accountability Report

## Part III: Financial Results, Position, and Condition

### BUDGET HIGHLIGHTS BY FUND ACCOUNT

#### Salaries and Expenses

The FY 2008 TTB budget of \$93,515,000 consists of direct appropriations. The budget authorizes the full time equivalent (FTE) staffing level at 544 direct FTE.

The budgeted amount maintains a program level consistent with the current level of effort necessary to support TTB's responsibility for revenue collection and the enforcement of laws and regulations governing alcohol and tobacco commodities. The Bureau obligated and/or expended nearly all of its FY 2008 direct appropriations, roughly 99.7 percent. In addition to the annual appropriations, the Bureau recovered reimbursable funding of \$3.4 million during the year.

FY 2008 Salaries and Expenses	
Appropriations (Public Law 110-161) Consolidated Appropriations Bill	\$93,515,000

Also during FY 2008, an additional \$134,945 from the FY 2007 account of unobligated available balances (often referred to as the 50 percent account) was authorized by Congress to cover strategic IT infrastructure investments.

FY 2007/2008 Salaries and Expenses	
Reprogramming	\$134,945

#### Offsetting Collections and Reimbursable Accounts from Puerto Rico Cover-Over/ Enforcement Activities

The Bureau collected \$3.4 million in offsetting collections during FY 2008. The primary source of reimbursable funding was collections from the cover-over program and enforcement activity in Puerto Rico, which amounted to \$2.5 million (74 percent) of the offsetting collections.

#### *Puerto Rico Cover-Over and Enforcement Activities*

All costs associated with the functioning and support of the Puerto Rico office are paid from the "cover-over," which is offset from cover-over taxes collected in the United States on products originating in Puerto Rico (\$373 million) and the Virgin Islands (\$8 million).

In Puerto Rico, TTB conducts annual audits and 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

# TTB 2008 Performance & Accountability Report

requirements of verifying tax payments under the Internal Revenue Code (IRC), as well as TTB's subsequent accountability for all cover-over amounts due to the government of Puerto Rico.

All distilled spirits producers and processors, wineries, wholesalers, importers, Manufacturer of Nonbeverage Products claimants, and specially denatured alcohol permit applicants are subject to a qualification inspection under the IRC.

Additionally, major producers of distilled spirits, wine, and malt beverages are subject to inspection and audits in Puerto Rico.

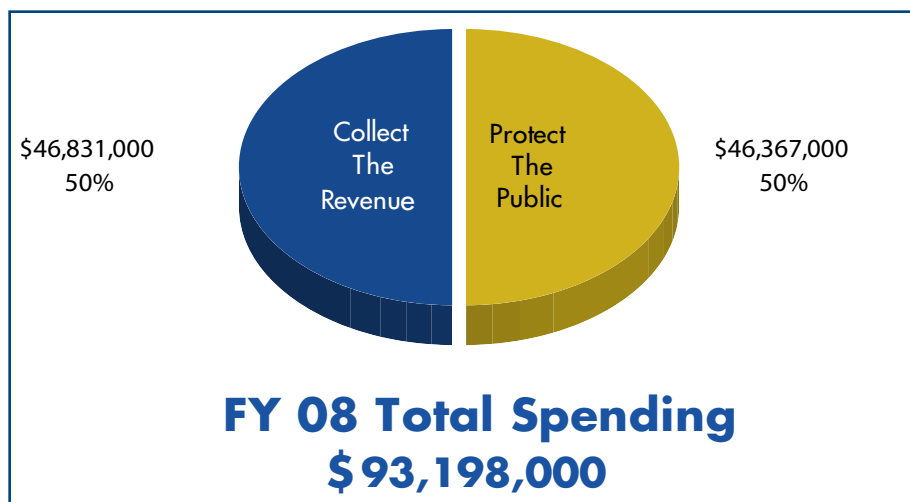
## LINKING BUDGET AND PROGRAM COSTS

TTB has two primary budget activities: collecting all the revenue that is rightfully due and protecting consumers of alcohol beverages. Assisting industry members to understand and comply with the Federal laws and regulations regarding the commodities TTB regulates is an integral part of both activities.

In FY 2008, TTB introduced a new account code structure which provides a direct link from the Bureau budget to specific programs and project activities. An analysis of the data stemming from the new coding structure discloses that in FY 2008 the \$93,198,000 in resources was expended relatively equally (50/50) under these two budget activities.

In order to ascertain the full costs of each of these programs, the overhead costs were allocated and combined with the direct program costs. That overhead allocation was accomplished by applying the pro rata share of the number of direct program labor hours to each overhead cost category.

The overhead is comprised of three major cost components: 1) general and administrative costs; 2) legal costs; and 3) information technology costs. The general and administrative category consists of costs related to operating the human resources, finance, procurement, training, facilities, and other support-type functions.

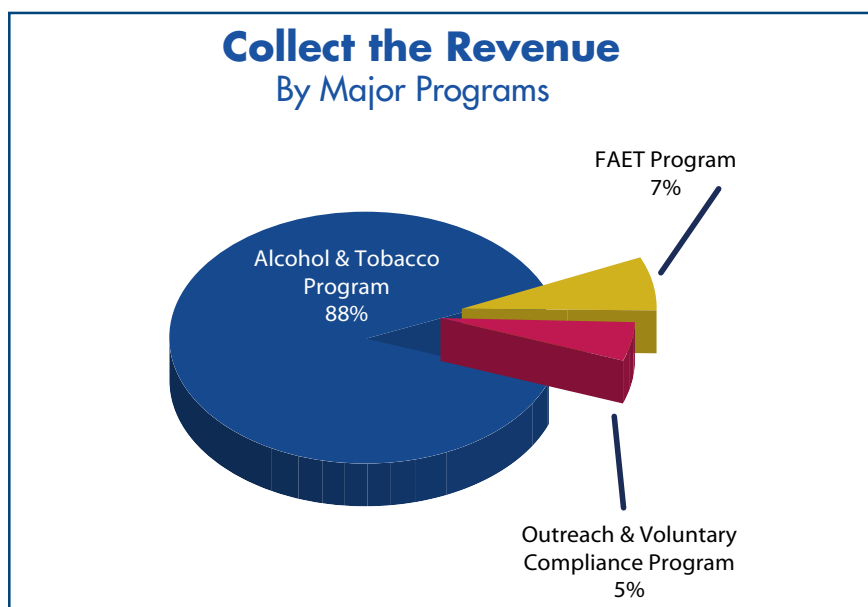


## COST TO ACHIEVE TTB MISSION GOALS

### *Collect the Revenue..... \$46,831,000*

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. It is also designed to prevent or eliminate tax evasion and other criminal conduct and provide high-quality service while imposing the least regulatory burden.

Under the Collect the Revenue activity, TTB administers three programs: 1) Alcohol and Tobacco Tax; 2) Firearms and Ammunitions Excise Tax (FAET); and 3) Outreach and Voluntary Compliance.



In FY 2008, TTB expended 88 percent of its Collect the Revenue resources in collecting Federal excise taxes from the alcohol and tobacco industries and 7 percent in collecting FAET. The specific projects that comprise these costs include the processing of tax returns and operational reports at the National Revenue Center and the audits and investigations conducted on industry.

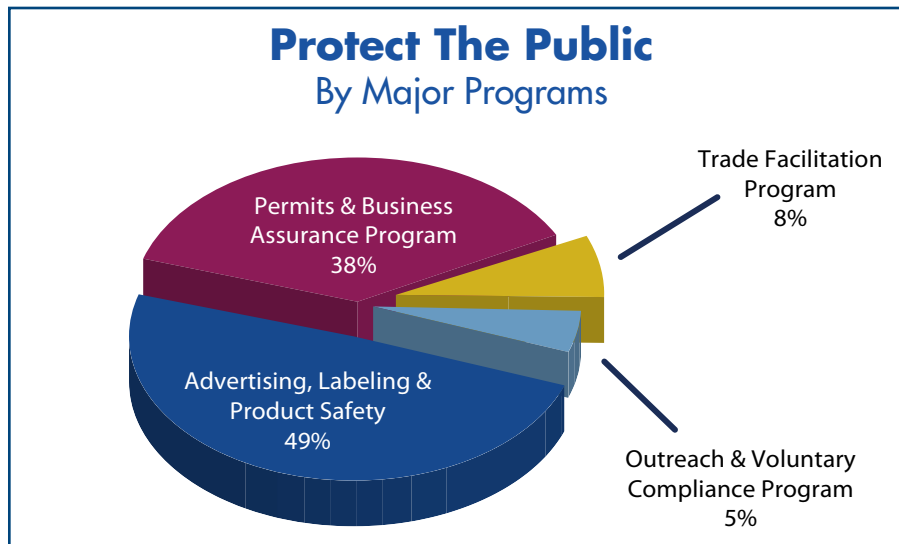
Costs for the Outreach Program reached five percent of our Collect the Revenue resources. These resources went toward efforts to educate and train industry members regarding their obligations in the areas of tax calculations and remittance.

### *Protect the Public..... \$46,367,000*

The Protect the Public budget activity encompasses TTB's strategy and goal to ensure industry compliance with laws and regulations designed to protect the consumers of alcohol beverages.

TTB does this by assuring the integrity of the people who operate these businesses, of the products themselves, and of the marketplace in which they are traded.

# TTB 2008 Performance & Accountability Report



TTB administers four programs under the Protect the Public budget activity: 1) Permits and Business Assurance; 2) Labeling, Advertising, and Product Safety; 4) Trade Facilitation; and 5) Outreach and Voluntary Compliance.

An analysis of the financial data from FY 2008 reveals that TTB spent the preponderance of its Protect the Public resources on two programs: Labeling, Advertising, and Product Safety Program at 49 percent, and Permits and Business Assurance at 38 percent.

The Labeling, Advertising, and Product Safety Program includes activities designed to assure that beverage alcohol labels fully and accurately describe the products upon which they appear and are not misleading. It also encompasses activities to verify that alcohol advertisements contain all mandatory information and do not mislead consumers. The Product Safety component involves all investigative and laboratory activities performed as part of the Alcohol Beverage Complaint and Referral Program, as well as work related to imported product safety.

The Permits and Business Assurance Program is designed to determine the eligibility of persons wishing to enter any of the businesses TTB regulates and to process applications for changes to the original permit. These activities may include a field investigation. The permit is necessary in order to conduct operations in the regulated industries.

The remainder of the Protect the Public resources were divided between the Trade Facilitation Program (8 percent) and the Outreach and Voluntary Compliance Program (5 percent).

## SYSTEMS AND CONTROLS

### Introduction

During FY 2008, TTB contracted with the Bureau of Public Debt's Administrative Resource Center (BPD ARC) to handle its administrative, human resources, and financial functions.

### Accounting Systems and Controls

The BPD ARC accounting system, known as Oracle Federal Financials, is certified by the Joint Financial Management Improvement Program and is in full compliance with Treasury reporting requirements; it also meets requirements under the Federal Financial Management Improvement Act (FFMIA).

The Bureau successfully met the Department of the Treasury's reporting requirements and has maintained accurate and reliable financial information on TTB's program activities.

### Federal Managers' Financial Integrity Act of 1982

The FMFIA requires Federal agencies to conduct ongoing evaluations of the systems of internal accounting and administrative control. Annually, TTB must report 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 costs are in compliance with applicable laws; that 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 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 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.

# TTB 2008 Performance & Accountability Report

Since its inception, TTB has gradually developed 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 Government Accountability Office.

In addition, any inspection, audit, evaluation, peer or program review process, self-assessment, or the equivalent, used by TTB management to keep informed about needs and opportunities for improvement must incorporate these same standards into its methodology.

Furthermore, the Bureau completed an annual risk assessment for improper payments on all of its programs and activities. This process disclosed low risk susceptibility for improper payments, and documented that sound internal management and controls were in place at the Bureau to cover its disbursements.

The Bureau continues to strengthen and improve the execution of its mission through the application of sound internal controls over financial reporting. In response to OMB Circular A-123, Management's Responsibility for Internal Controls, the Bureau, in concert with the Department, developed and implemented an extensive testing and assessment methodology that identified and documented internal controls over financial reporting on our revenue accounting activities.

This increased emphasis on management controls has had a positive impact on programs and enabled the Bureau to achieve the intended results. The 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. Also, in addition to the A-123 review, TTB conducted a series of office reviews during FY 2008 that included an extensive review of administrative and internal controls.

In summary, during FY 2008, TTB did not have any reportable conditions related to internal control or reportable instances of non-compliance with laws and regulations that could have a direct and material effect on our financial statements.

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, an improved controls environment, scrutiny by external audit sources, internal evaluations, and administrative and fiscal accounting system enhancements.

## FINANCIAL STATEMENTS, ACCOMPANYING NOTES, AND REQUIRED SUPPLEMENTAL INFORMATION

### **Limitations of Financial Statements**

TTB prepared financial statements 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 were prepared from the books and records of TTB according to formats prescribed by the Office of Management and Budget (OMB).

These statements are in addition to the financial reports used to monitor and control budgetary resources. The unaudited Bureau financial statements have 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 Circular A-136.

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 of and compliance with pertinent laws and regulations.

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

The Department of the Treasury received an unqualified audit opinion on its FY 2008 financial statements. The financial activities of the Bureau are an integral part of the information reported by the Department of the Treasury.

This unqualified audit opinion means that the financial information presented by the Treasury, which includes TTB's financial activities, was presented fairly and in conformity with generally accepted accounting principles (GAAP) of the United States. The report did not disclose any material weaknesses on internal controls or reportable conditions on TTB.

For purposes of this report, we include "unaudited" financial information that pertains exclusively to TTB, as a separate entity. Although these statements are not independently audited, the information is a reliable and accurate portrayal of the Bureau's financial operations and was used in the preparation of the consolidated financial statements of the Department.



# TTB 2008 Performance & Accountability Report

DEPARTMENT OF THE TREASURY  
ALCOHOL AND TOBACCO TAX AND TRADE BUREAU

BALANCE SHEETS (Unaudited)  
As of September 30, 2008 and 2007

		2008	2007
		<i>(In Thousands)</i>	
<b>ASSETS</b>			
<b>Intragovernmental Assets:</b>			
Fund Balance with Treasury	(Note 2)	\$ 34,948	\$ 27,447
Accounts Receivable, Net	(Note 3)	87	68
Due from the General Fund	(Note 5)	12,167	9,605
Advances	(Note 7)	2,303	2,113
<b>Total Intragovernmental Assets</b>		<u>49,505</u>	<u>39,233</u>
Accounts Receivable, Net	(Note 3)	366	307
Tax and Trade Receivables, Net	(Note 4)	12,255	3,740
Property, Plant and Equipment, Net	(Note 6)	<u>13,282</u>	<u>12,718</u>
<b>TOTAL ASSETS</b>		<u><u>\$ 75,408</u></u>	<u><u>\$ 55,998</u></u>
<b>LIABILITIES</b>			
<b>Intragovernmental Liabilities:</b>			
Accounts Payable		\$ 579	\$ 1,053
Accrued Funded Payroll Benefits		462	369
Accrued Unfunded FECA Liabilities		95	2
Due to the General Fund		12,203	3,683
Other Accrued Liabilities	(Note 9)	52	57
<b>Total Intragovernmental Liabilities</b>		<u>13,391</u>	<u>5,164</u>
Accounts Payable		2,730	3,351
Accrued Funded Payroll Benefits		2,139	1,689
Unfunded FECA Actuarial Liability		243	176
Accrued Refunds	(Note 5)	12,167	9,605
Accrued Unfunded Leave		4,280	3,887
Other Liabilities	(Note 9)	14,335	5,692
<b>TOTAL LIABILITIES</b>		<u>\$ 49,285</u>	<u>\$ 29,564</u>
<b>NET POSITION</b>			
Unexpended Appropriations		\$ 17,463	\$ 17,893
Cumulative Results of Operations		<u>8,660</u>	<u>8,541</u>
<b>TOTAL NET POSITION</b>		<u>26,123</u>	<u>26,434</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>		<u><u>\$ 75,408</u></u>	<u><u>\$ 55,998</u></u>

The accompanying notes are an integral part of these statements.

# TTB 2008 Performance & Accountability Report

DEPARTMENT OF THE TREASURY  
ALCOHOL AND TOBACCO TAX AND TRADE BUREAU

STATEMENTS OF NET COST (Unaudited)  
For the Years Ended September 30, 2008 and 2007

	<b>2008</b>	<b>2007</b>
	<i>(In Thousands)</i>	
<b>PROTECT THE PUBLIC</b>		
<b>Program Costs</b>		
Intragovernmental Gross Costs	\$ 13,513	\$ 13,720
Less: Intragovernmental Earned Revenue (Note 13)	<u>(209)</u>	<u>(92)</u>
Intragovernmental Net Costs	13,304	13,628
Gross Costs with the Public	35,646	35,467
Less: Earned Revenues from the Public (Note 13)	<u>(1,233)</u>	<u>(1,292)</u>
Net Costs with the Public	34,413	34,175
Total Net Cost	\$ 47,717	\$ 47,803
 <b>COLLECT THE REVENUE</b>		
<b>Program Costs</b>		
Intragovernmental Gross Costs	\$ 13,542	\$ 13,273
Less: Intragovernmental Earned Revenue (Note 13)	<u>(210)</u>	<u>(89)</u>
Intragovernmental Net Costs	13,332	13,184
Gross Costs with the Public	35,724	34,311
Less: Earned Revenues from the Public (Note 13)	<u>(1,235)</u>	<u>(1,250)</u>
Net Costs with the Public	34,489	33,061
Total Net Cost	\$ 47,821	\$ 46,245
<b>Costs Not Assigned to Programs</b>	-	-
<b>Less: Earned Revenues not Attributed to Programs</b>	<u>-</u>	<u>-</u>
<b>NET COST OF OPERATIONS</b>	<u>\$ 95,538</u>	<u>\$ 94,048</u>

The accompanying notes are an integral part of these statements.

# TTB 2008 Performance & Accountability Report

DEPARTMENT OF THE TREASURY  
ALCOHOL AND TOBACCO TAX AND TRADE BUREAU  
STATEMENTS OF CHANGES IN NET POSITION (Unaudited)  
For the Years Ended September 30, 2008 and 2007

	2008	2007
	<i>(In Thousands)</i>	
<b>OPERATIONS</b>		
Beginning Balances	\$ 8,541	\$ 8,998
Prior Period Adjustments (Note 6)	-	-
Beginning Balances, as Adjusted	<u>8,541</u>	<u>8,998</u>
<b>Budgetary Financing Sources</b>		
Appropriations Used	91,811	89,590
<b>Other Financing Sources</b>		
Transfers-in/out without reimbursement (+/-)	116	-
Imputed Financing from Costs Absorbed by Others (Note 12)	3,730	4,001
<b>Total Financing Sources</b>	<u>95,657</u>	<u>93,591</u>
<b>Net Cost of Operations</b> (Note 13)	<u>(95,538)</u>	<u>(94,048)</u>
<b>Net Position From Operations</b>	\$ 8,660	\$ 8,541
<b>UNEXPENDED APPROPRIATIONS</b>		
Beginning Balances	\$ 17,893	\$ 16,865
Prior Period Adjustments	-	-
Beginning Balances, as Adjusted	<u>17,893</u>	<u>16,865</u>
<b>Budgetary Financing Sources</b>		
Appropriations Received	93,515	90,618
Other Adjustments	(2,134)	-
Appropriations Used	<u>(91,811)</u>	<u>(89,590)</u>
<b>Total Financing Sources</b>	<u>(430)</u>	<u>1,028</u>
<b>Net Position of Unexpended Appropriations</b>	\$ 17,463	\$ 17,893
<b>TOTAL NET POSITION</b>	<u>\$26,123</u>	<u>\$26,434</u>

The accompanying notes are an integral part of these statements.

# TTB 2008 Performance & Accountability Report

DEPARTMENT OF THE TREASURY  
ALCOHOL AND TOBACCO TAX AND TRADE BUREAU  
STATEMENTS OF BUDGETARY RESOURCES (Unaudited)  
For the Years Ended September 30, 2008 and 2007

	2008	2007
	<i>(In Thousands)</i>	
<b>BUDGETARY RESOURCES</b>		
	(Note 14)	
Unobligated Balance - Beginning of Period		
Beginning of Period	\$ 3,136	2,122
Recoveries of Prior Year Obligations	2,924	3,365
Budget Authority		
Appropriations Received	93,515	90,618
Spending Authority from Offsetting Collections		
Earned		
Collected	2,929	2,464
Change in Receivable from Federal Sources	74	259
Change in Unfilled Customer Orders		
Advance Received	-	-
Without Advance from Federal Sources	206	(14)
Subtotal	96,724	93,327
Permanently not Available	(2,134)	-
<b>TOTAL BUDGETARY RESOURCES</b>	<u>100,650</u>	<u>98,814</u>
<b>STATUS OF BUDGETARY RESOURCES</b>		
	(Note 15)	
Obligations Incurred:		
Direct	\$ 94,951	\$ 92,964
Reimbursable	3,291	2,714
Subtotal	98,242	95,678
Unobligated Balance Apportioned	317	284
Unobligated Balance not Available	2,091	2,852
<b>TOTAL STATUS OF BUDGETARY RESOURCES</b>	<u>\$ 100,650</u>	<u>\$ 98,814</u>

The accompanying notes are an integral part of these statements.

# TTB 2008 Performance & Accountability Report

DEPARTMENT OF THE TREASURY  
ALCOHOL AND TOBACCO TAX AND TRADE BUREAU  
STATEMENTS OF BUDGETARY RESOURCES (Unaudited)  
For the Years Ended September 30, 2008 and 2007

	<b>2008</b>	<b>2007</b>
<i>(In Thousands)</i>		
<b>RELATIONSHIP OF OBLIGATIONS TO OUTLAYS:</b>		
Unpaid obligations brought forward, Oct 1	\$ 19,218	\$ 19,834
Uncollected customer payments from Federal sources brought forward Oct 1	(599)	(355)
Total unpaid obligated balance brought forward, net	18,619	19,479
Obligations incurred, net	98,242	95,678
Gross Outlays	95,451	(92,929)
Recoveries of prior year unpaid obligations, actual	(2,924)	(3,365)
Change in uncollected customer payments from Federal sources	(280)	(244)
Obligated balances, net end of period		
Unpaid obligations	19,084	19,218
Uncollected customer payments from Federal sources	(880)	(599)
Total unpaid obligated balance, net, end of period	18,204	18,619
Net Outlays		
Gross outlays	95,451	92,929
Offsetting collections	(2,929)	(2,464)
Distributed offsetting receipts	(5)	(6)
<b>NET OUTLAYS</b>	<u><u>\$ 92,517</u></u>	<u><u>\$ 90,459</u></u>

The accompanying notes are an integral part of these statements.

# TTB 2008 Performance & Accountability Report

DEPARTMENT OF THE TREASURY  
ALCOHOL AND TOBACCO TAX AND TRADE BUREAU  
STATEMENTS OF CUSTODIAL ACTIVITY (Unaudited)  
For the Years Ended September 30, 2008 and 2007

	<b>2008</b>	<b>2007</b>
<i>(In Thousands)</i>		
<b>SOURCES OF CUSTODIAL REVENUE</b>		
<b>Revenue Received</b>		
Excise Taxes	\$ 14,585,275	\$ 14,716,048
Interest	231	280
Penalties and Fines	474	560
Other Custodial Revenue	5	6
<b>Total Revenue Received</b>	(Note 17) 14,585,985	14,716,894
Refunds	(300,525)	(349,886)
<b>Net Revenue Received</b>	(Note 16) 14,285,460	14,367,008
Accrual Adjustment	45,805	(248)
<b>Total Source of Custodial Revenue</b>	\$ 14,331,265	\$ 14,366,760
<b>DISPOSITION OF CUSTODIAL REVENUE</b>		
Amounts Provided to Non-Federal Entities	(Note 16) 381,033	467,332
Amounts Provided to Fund the Federal Government	(Note 17) 13,904,427	13,899,676
Accrual Adjustment	45,805	(248)
<b>Total Disposition of Custodial Revenue</b>	\$ 14,331,265	\$ 14,366,760
<b>NET CUSTODIAL REVENUE ACTIVITY</b>	<b>\$ -</b>	<b>\$ -</b>

The accompanying notes are an integral part of these statements.

## 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 of 1986 (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 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.

#### 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 generally accepted accounting principles (GAAP) in the United States, form and content for entity financial statements specified by the Office of Management and Budget (OMB) in OMB Circular A-136, 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. Some prior year balances may have been reclassified to conform to the current year's presentation.

#### 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 2008 Performance & Accountability Report

TTB primarily provides services to three entities: the government of Puerto Rico, Treasury's Departmental Offices, and ATF. TTB maintains operations in Puerto Rico primarily to enforce laws and regulations on alcohol products. TTB also has an employee detailed to Iraq under a program coordinated by Treasury's Departmental Offices. Additionally, TTB provides lab 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.

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

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. The Fund Balance also includes a non-entity balance, 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 \$50,000 per unit and a useful life of two years or more, is capitalized and depreciated. Normal repairs and maintenance are charged to expense as incurred.

TTB also capitalizes internal use of software when the unit cost or development costs are greater than or equal to \$50,000. The same threshold also will apply to enhancements that add significant functionality to the software. TTB will amortize this software based on its classification. The classifications are as follows: (1) Enterprise and other business software (5 years) and (2) Personal productivity and desktop operating software (3 years).

Additionally, TTB also capitalizes like assets purchased in bulk when the unit price is greater than or equal to \$5,000 and less than \$50,000, with the aggregated purchase amount greater than or equal to \$250,000.

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



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## **H. Advances**

Advances 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 services on a reimbursable basis. Payments from TTB to Treasury are made in advance and 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.

## **I. 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 the operating expenses of TTB.

## **J. 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 a 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 consist of amounts payable to the Treasury for collections of excise tax, fees receivable, payments 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.

## **K. 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 loss. 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.

## **L. 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.

## **M. Interest on Late Payments**

Pursuant to the Prompt Payment Act, 31 U.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.

## **N. 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

# TTB 2008 Performance & Accountability Report

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 11.2 percent, for a total contribution rate of 12.0 percent in FY 2008. 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 Statement of Federal Financial Accounting Standards (SFFAS) No. 5. Full cost includes pension and ORB contributions paid out of Bureau appropriations and costs financed by OPM. Costs financed by 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.

## **O. 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.

Claims are paid for TTB employees by the Department of Labor (DOL) 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.

## **P. 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.

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## Note 2. Fund Balance with Treasury

Fund Balance with Treasury (FBWT) as of September 30, 2008 and 2007 consisted of the following (in thousands):

	<u>2008</u>	<u>2007</u>
Fund Balances:		
Appropriated Funds	\$ 20,613	\$ 21,755
Other Funds	14,335	5,692
Total	<u>\$ 34,948</u>	<u>\$ 27,447</u>
Status of Fund Balances:		
Unobligated Balance - Available	\$ 317	\$ 284
Unobligated Balance - Unavailable	2,092	2,852
Obligated Balance Not Yet Disbursed	18,204	18,619
Subtotal	20,613	21,755
Adjustment for Non-Budgetary Funds	14,335	5,692
Total Status of Fund Balances	<u>\$ 34,948</u>	<u>\$ 27,447</u>

The non-budgetary fund balance primarily represents cash payments made to the Bureau by taxpayers, in lieu of obtaining corporate surety bonds, guaranteeing payment of taxes. It also includes Offers-in-Compromise (OIC). OICs 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 3. Accounts Receivable, Net

Accounts Receivable as of September 30, 2008 and 2007 consisted of the following (in thousands):

	<u>2008</u>	<u>2007</u>
Intragovernmental Accounts Receivable:		
Due from Treasury Departmental Offices	\$ 87	\$ 68
Total Intragovernmental Accounts Receivable	<u>\$ 87</u>	<u>\$ 68</u>
Due from the Government of Puerto Rico	\$ 355	\$ 304
Due from Commercial Vendors	3	-
Due from Employees	8	3
Total Accounts Receivable Due from the Public	<u>\$ 366</u>	<u>\$ 307</u>

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

# TTB 2008 Performance & Accountability Report

## Note 4. Tax and Trade Receivables, Net

Tax and Trade Receivables as of September 30, 2008 and 2007 consisted of the following (in thousands):

	<u>2008</u>	<u>2007</u>
Taxes Receivable	\$ 57,036	\$ 9,700
Interest Receivable	10,096	2,310
Penalties, Fines and Administrative Fees Receivable	<u>6,941</u>	<u>3,071</u>
Total Tax and Trade Receivables	74,073	15,081
Allowance for Doubtful Accounts	<u>(61,818)</u>	<u>(11,341)</u>
Total Tax and Trade Receivables, Net	<u>\$ 12,255</u>	<u>\$ 3,740</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. Because current laws governing the collection period for these tax assessments, 26 U.S.C. 6502, stipulate taxes are collectible for 10 years from the date the taxes were assessed, a large amount of aged receivables that are not likely to be collected have been offset with an allowance, but not written off.

## Note 5. Due from the General Fund

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

## Note 6. General Property, Plant, and Equipment (PP&E)

General Property, Plant and Equipment as of September 30, 2008 and 2007 consisted of the following (in thousands):

<u>2008</u>	<u>Service Life (Years)</u>	<u>Acquisition Value</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
ADP Software	3	\$ 6,053	\$ 2,658	\$ 3,395
Equipment	2 - 10	4,815	4,484	331
Leasehold Improvements	2 - 5	1,346	393	953
Buildings	40	<u>9,689</u>	<u>1,086</u>	<u>8,603</u>
Total PP&E		<u>\$ 21,903</u>	<u>\$ 8,621</u>	<u>\$ 13,282</u>
<u>2007</u>	<u>Service Life (Years)</u>	<u>Acquisition Value</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
ADP Software	3	\$ 4,419	\$ 2,132	\$ 2,287
Equipment	2 - 10	4,596	3,897	699
Leasehold Improvements	2 - 5	1,137	259	878
Buildings	40	<u>9,689</u>	<u>835</u>	<u>8,854</u>
Total PP&E		<u>\$ 19,841</u>	<u>\$ 7,123</u>	<u>\$ 12,718</u>

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

The balance in the Buildings account represents TTB's 13.2 percent equity interest in the National Laboratory Center facility in Beltsville, Maryland, which TTB co-owns with ATF. The ownership rights were established in a June 4, 2004, opinion from the Chief Counsel.

## Note 7. Advances

Intragovernmental advances consist of the balances paid to Treasury's Working Capital Fund that have not yet been earned and billed by the fund.

## Note 8. Non-entity Assets

The Bureau has total assets valued at \$75.4 million, of which \$38.8 million are non-entity assets. Below is a detailed breakout of the non-entity assets.

Non-entity assets as of September 30, 2008 and 2007 consisted of the following (in thousands):		
	<u>2008</u>	<u>2007</u>
Intragovernmental Non-entity Assets:		
Fund Balance with Treasury	\$ 14,335	\$ 5,692
Due from the General Fund	<u>12,167</u>	<u>9,605</u>
Total Intragovernmental Non-entity Assets	26,502	15,297
Tax and Trade Receivables, Net	<u>12,255</u>	<u>3,740</u>
Total Non-Entity Assets	38,757	19,037
Total Entity Assets	<u>36,651</u>	<u>36,961</u>
Total Assets	<u>\$ 75,408</u>	<u>\$ 55,998</u>

## Note 9. Other Liabilities

Other Liabilities as of September 30, 2008 and 2007 consisted of the following (in thousands):		
	<u>2008</u>	<u>2007</u>
Due to the Fish and Wildlife Fund	\$ 52	\$ 57
Other Intragovernmental Liabilities	\$ 52	\$ 57
Cash Bond Liabilities	\$ 6,394	\$ 5,369
Offers-in-Compromise not yet Accepted	<u>7,941</u>	<u>323</u>
Total Other Liabilities with the Public	\$ 14,335	\$ 5,692
Total Other Liabilities	<u>\$ 14,387</u>	<u>\$ 5,749</u>

All Other Liabilities are considered current liabilities.

# TTB 2008 Performance & Accountability Report

## Note 10. Liabilities Not Covered by Budgetary Resources

For fiscal years 2008 and 2007, the Bureau's total liabilities were \$49.3 million and \$29.6 million, of which \$4.5 million and \$4 million were not covered by budgetary resources, in the respective years. Below is a detailed break out of liabilities not covered by budgetary resources.

Liabilities not Covered by Budgetary Resources as of September 30, 2008 and 2007 consisted of the following (in thousands):		
	<u>2008</u>	<u>2007</u>
Accrued Unfunded FECA Liability	\$ 95	\$ 2
Total Intragovernmental Liabilities not Covered by Budgetary Resources	95	2
FECA Actuarial Liability	243	176
Accrued Leave	<u>4,280</u>	<u>3,887</u>
Total Liabilities with the Public not Covered by Budgetary Resources	<u>4,523</u>	<u>4,063</u>
Total Liabilities not Covered By Budgetary Resources	4,618	4,065
Total Liabilities Covered by Budgetary Resources	<u>44,667</u>	<u>25,499</u>
Total Liabilities	<u>\$ 49,285</u>	<u>\$ 29,564</u>

## Note 11. Future Funding Requirements

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

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

# TTB 2008 Performance & Accountability Report

## Note 12. Imputed Financing

Imputed Financing as of September 30, 2008 and 2007 consisted of the following (in thousands):

	<u>2008</u>	<u>2007</u>
Health Insurance	\$ 2,339	\$ 2,552
Life Insurance	7	7
Pension	1,384	1,442
Total Imputed Financing	<u>\$ 3,730</u>	<u>\$ 4,001</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 (FEHB), Federal Employees Group Life Insurance Program (FEGLI), and pensions. Imputed financing also recognizes costs 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 in 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 fiscal years 2008 or 2007.

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, which vary by retirement plan, 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 FEHB and FEGLI programs. The FY 2008 FEHBP cost factor applied to a weighted average number of employees enrolled in the FEHB is \$5,220, which produced a \$ 2.3 million imputed cost. The FY 2008 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 \$7,000 also is included as an expense and imputed financing source in TTB financial statements for FY 2008.

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## Note 13. Consolidated Gross Cost and Earned Revenue by Budget Functional Classification

Consolidated Gross Cost and Earned Revenue by Budget Function Classification as of September 30, 2008 and 2007 consisted of the following (in thousands):

Fiscal Year Ended September 30, 2008

Activity	Budget Function Classification	Code	Gross Costs	Earned Revenue	Net Costs
Consolidated	Central Fiscal Operations	803	\$ 98,425	\$ (2,887)	\$ 95,538
Intragovernmental	Central Fiscal Operations	803	<u>27,055</u>	<u>(419)</u>	<u>26,636</u>
With the Public	Central Fiscal Operations	803	<u>\$ 71,370</u>	<u>\$ (2,468)</u>	<u>\$ 68,902</u>

Fiscal Year Ended September 30, 2007

Activity	Budget Function Classification	Code	Gross Costs	Earned Revenue	Net Costs
Consolidated	Central Fiscal Operations	803	\$ 96,771	\$ (2,723)	\$ 94,048
Intragovernmental	Central Fiscal Operations	803	<u>26,993</u>	<u>(181)</u>	<u>26,812</u>
With the Public	Central Fiscal Operations	803	<u>\$ 69,778</u>	<u>\$ (2,542)</u>	<u>\$ 67,236</u>

## Note 14. Statement of Budgetary Resources vs. Budget of the United States

There are no material differences between the amounts reported on the Statement of Budgetary Resources and the estimated amounts reported in the Budget of the United States pertaining to budgetary resources, status of budgetary resources, and net outlays for appropriated funds. However, the fiscal year 2008 Budget of the United States discloses estimated budget authority of \$484 million, funding cover-over payments to Puerto Rico and the Virgin Islands, which is not reported in the Statement of Budgetary Resources.

The cover-over 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 cover-over 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 Acts of 2008 and 2007, P.L. 110-161 and P.L. 110-5, respectively (in thousands):

	<u>2008</u>	<u>2007</u>
Appropriations Received	\$ 93,515	\$ 90,618
Rescissions	<u>-</u>	<u>-</u>
Appropriations Received, Net	93,515	90,618
Spending Authority From Offsetting Collections	<u>3,209</u>	<u>2,709</u>
Total Budgetary Resources	<u>\$ 96,724</u>	<u>\$ 93,327</u>



# TTB 2008 Performance & Accountability Report

## Note 15. Apportionment Categories of Obligations Incurred

Obligations Incurred as of September 30, 2008 and 2007 consisted of the following (in thousands):

Fiscal Year	Apportionment Category	Direct Obligations	Reimbursable Obligations	Total Obligations Incurred
2008	Category B	<u>\$ 94,951</u>	<u>\$ 3,291</u>	<u>\$ 98,242</u>
2007	Category B	<u>\$ 92,964</u>	<u>\$ 2,714</u>	<u>\$ 95,678</u>

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 16. 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 2008, TTB collected nearly \$14.6 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 2008, TTB issued more than \$682 million in refunds, cover-over payments, and drawback payments.

**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.

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

# TTB 2008 Performance & Accountability Report

producers/processors, wineries, wholesalers, importers, Manufacturer of Nonbeverage Products claimants, and Specially Denatured Alcohol permit applicants. All costs associated with the functioning and supporting of the Puerto Rico office, \$2.5 million in FY 2008, are offset against the cover-over payments made by the United States to Puerto Rico.

## Drawbacks

Under current law, 26 U.S.C. 5134, Manufacturers of Nonbeverage Products 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, Drawbacks and Coverover Payments as of September 30, 2008 and 2007 consisted of the following (in thousands):

	<u>2008</u>	<u>2007</u>
Alcohol and Tobacco Excise Tax Refunds	\$ 14,125	\$ 13,208
Drawbacks on MNBP Claims	283,462	335,706
Interest and Other Payments	<u>2,938</u>	<u>972</u>
Refunds	300,525	349,886
Cover-over Payments - Puerto Rico	373,418	459,278
Cover-over Payments - Virgin Islands	<u>7,615</u>	<u>8,054</u>
Amounts Provided to Non-federal Entities	381,033	467,332
Total Refunds, Drawbacks and Coverover Payments	<u>\$ 681,558</u>	<u>\$ 817,218</u>

As of September 30, 2008, the amount of custodial liability due to the general fund was \$12,203.

## Note 17. Non-exchange Revenues and Refunds

Collection and Disposition of Custodial Revenue as of September 30, 2008 and 2007 consisted of the following (in thousands):

Revenue Type	FY 2008 Collections and Refunds by Tax Year				FY 2008
	<u>2008</u>	<u>2007</u>	<u>2006</u>	Pre- <u>2006</u>	<u>Total</u>
Excise Taxes	\$ 10,733,580	\$ 3,847,347	\$ 1,935	\$ 2,413	\$ 14,585,275
Fines, Penalties, Interest and Other	343	290	18	59	710
Total Revenue Received	10,733,923	3,847,637	1,953	2,472	14,585,985
Less: Amounts Collected for Non-federal Entities	(381,033)				(381,033)
Total	<u>\$ 10,352,890</u>	<u>\$ 3,847,637</u>	<u>\$ 1,953</u>	<u>\$ 2,472</u>	<u>\$ 14,204,952</u>
Refund Type					
Excise Taxes	\$ 155,607	\$ 139,432	\$ 4,120	\$ 530	\$ 299,689
Fines, Penalties, Interest and Other	836				836
Total Refunds	<u>\$ 156,443</u>	<u>\$ 139,432</u>	<u>\$ 4,120</u>	<u>\$ 530</u>	<u>\$ 300,525</u>
Amounts Provided to Fund the Federal Government	<u>\$ 10,196,447</u>	<u>\$ 3,708,205</u>	<u>\$ (2,167)</u>	<u>\$ 1,942</u>	<u>\$ 13,904,427</u>

# TTB 2008 Performance & Accountability Report

Revenue Type	FY 2007 Collections and Refunds by Tax Year				FY 2007
	2007	2006	2005	Pre-2005	Total
Excise Taxes	\$ 10,792,953	\$ 3,918,592	\$ 1,394	\$ 3,109	\$ 14,716,048
Fines, Penalties, Interest and Other	413	213	22	198	846
Total Revenue Received	10,793,366	3,918,805	1,416	3,307	14,716,894
Less: Amounts Collected for Non-federal Entities	(467,332)				(467,332)
Total	\$ 10,326,034	\$ 3,918,805	\$ 1,416	\$ 3,307	\$ 14,249,562
Refund Type					
Excise Taxes	\$ 190,167	\$ 156,102	\$ 1,717	\$ 1,672	\$ 349,658
Fines, Penalties, Interest and Other	228				228
Total Refunds	\$ 190,395	\$ 156,102	\$ 1,717	\$ 1,672	\$ 349,886
Amounts Provided to Fund the Federal Government	\$ 10,135,639	\$ 3,762,703	\$ (301)	\$ 1,635	\$ 13,899,676

## Note 18. Reconciliation of Net Cost of Operations to Budget

The Reconciliation of Net Cost of Operations to Budget explains the difference between the budgetary net obligations and the proprietary net cost of operations.

Reconciliation of Net Cost of Operations to Budget, as of September 30, 2008 and 2007 consisted of the following (in thousands)

	<u>2008</u>	<u>2007</u>
	<i>(In Thousands)</i>	
<b>Resources Used to Finance Activities</b>		
<b>Budgetary Resources Obligated</b>		
Obligations Incurred	\$ 98,242	\$ 95,678
Less: Spending Authority from Offsetting Collections and Recoveries	(6,134)	(6,073)
Obligations Net of Offsetting Collections and Recoveries	92,108	89,605
Less: Offsetting Receipts	(5)	(6)
Net Obligations	92,103	89,599
<b>Other Resources</b>		
Transfers In/Out without Reimbursement (+/-)	116	-
Imputed Financing from Costs Absorbed by Others	3,730	4,001
Other (+/-)	-	-
Net Other Resources Used to Finance Activities	3,846	4,001
<b>Total Resources Used to Finance Activities</b>	<u>\$ 95,949</u>	<u>\$ 93,600</u>

# TTB 2008 Performance & Accountability Report

<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 (+/-)	\$ 400	\$ (87)
Resources that Fund Expenses Recognized in Prior Periods	-	199
Other Budgetary Offsetting Collections and Receipts that do not Affect Net Cost of Operations	(5)	(6)
Resources that Finance the Acquisition of Assets	2,179	1,333
Other Resources or Adjustments to Net Obligated Resources that do not Affect Net Cost of Operations (+/-)	<u>(116)</u>	<u>-</u>
<b>Total Resources Used to Finance Items not Part of the Net Cost of Operations</b>	<b>\$ 2,458</b>	<b>\$ 1,439</b>
<b>Total Resources Used to Finance the Net Cost of Operations</b>	<b>\$ 93,491</b>	<b>\$ 92,161</b>
<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	\$ 393	\$ 270
Other (+/-)	<u>159</u>	<u>-</u>
<b>Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods</b>	<b>\$ 552</b>	<b>\$ 270</b>
<b>Components of the Net Cost of Operations not Requiring or Generating Resources</b>		
Depreciation and Amortization	\$ 1,499	\$ 1,617
Revaluation of Assets or Liabilities (+/-)	-	-
Other	<u>(4)</u>	<u>-</u>
<b>Total Components of Net Cost of Operations that will not Require or Generate Resources</b>	<b>\$ 1,495</b>	<b>\$ 1,617</b>
<b>Total Components of Net Cost of Operations that will not Require or Generate Resources in the Current Period</b>	<b>\$ 2,047</b>	<b>\$ 1,887</b>
<b>NET COST OF OPERATIONS</b>	<b>\$ 95,538</b>	<b>\$ 94,048</b>

## 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.

### Other Supplemental Information

#### Intragovernmental Assets

Other Supplemental Information Consolidated Intragovernmental Assets As of September 30, 2008 Unaudited				
Dollars in Thousands				
Trading Partner	Agency Code	Fund Balance W/Treasury	Accounts Receivable	Advances and Other Assets
Department of the Treasury	20	\$ 34,948	\$ 87	\$ 2,303
General Fund	99	-	12,167	-
Total		<u>\$ 34,948</u>	<u>\$ 12,254</u>	<u>\$ 2,303</u>

Other Supplemental Information Consolidated Intragovernmental Assets As of September 30, 2007 Unaudited				
Dollars in Thousands				
Trading Partner	Agency Code	Fund Balance W/Treasury	Accounts Receivable	Advances and Other Assets
Department of the Treasury	20	\$ 27,447	\$ 68	\$ 2,113
General Fund	99	-	9,605	-
Total		<u>\$ 27,447</u>	<u>\$ 9,673</u>	<u>\$ 2,113</u>

# TTB 2008 Performance & Accountability Report

## Intragovernmental Liabilities

Other Supplemental Information Consolidated Intragovernmental Liabilities As of September 30, 2008 Unaudited				
Dollars in Thousands				
Trading Partner	Agency Code	Accounts Payable	Accrued FECA	Custodial and Other Liabilities
Government Printing Office	04	\$ 55	\$ -	\$ -
Department of the Interior	14	-	-	52
Department of Justice	15	308	-	-
Department of Labor	16	-	95	-
Department of the Treasury	20	35	-	-
Office of Personnel Management	24	-	-	335
General Services Administration	47	156	-	-
Treasury General Fund	99	25	-	12,330
Total		\$ 579	\$ 95	\$ 12,717

Other Supplemental Information Consolidated Intragovernmental Liabilities As of September 30, 2007 Unaudited				
Dollars in Thousands				
Trading Partner	Agency Code	Accounts Payable	Accrued FECA	Custodial and Other Liabilities
Government Printing Office	04	\$ 65	\$ -	\$ -
Department of the Interior	14	-	-	57
Department of Justice	15	698	-	-
Department of Labor	16	-	2	-
Department of the Treasury	20	48	-	-
Office of Personnel Management	24	-	-	271
General Services Administration	47	217	-	-
Treasury General Fund	99	25	-	3,781
Total		\$ 1,053	\$ 2	\$ 4,109

# TTB 2008 Performance & Accountability Report

## Intragovernmental Earned Revenue

<b>Other Supplemental Information</b>			
<b>Consolidated Intragovernmental Earned Revenue</b>			
<b>For the Fiscal Years Ended September 30, 2008 and 2007</b>			
<b>Unaudited</b>			
<b>Dollars in Thousands</b>		<b>FY 2008</b>	<b>FY 2007</b>
Trading Partner	Agency Code		
Department of Justice	15	\$ 42	\$ 18
Department of Treasury	20	377	163
Total		<u>\$ 419</u>	<u>\$ 181</u>
<b>Gross Cost to Generate Earned Revenue:</b>			
Budget Function Classification	Code	FY 2008	FY 2007
Central Fiscal Operations	803	\$ 419	\$ 181
Total		<u>\$ 419</u>	<u>\$ 181</u>

# TTB 2008 Performance & Accountability Report

## Intragovernmental Gross Cost

<b>Other Supplemental Information</b>			
<b>Consolidated Intragovernmental Gross Cost</b>			
<b>For the Fiscal Years Ended September 30, 2008 and 2007</b>			
<b>Unaudited</b>			
<b>Dollars in Thousands</b>		<b>FY 2008</b>	<b>FY 2007</b>
Trading Partner	Agency Code		
Library of Congress	03	\$ 54	\$ 62
Government Printing Office	04	296	229
Department of Justice	15	679	709
Department of Labor	16	26	55
Department of State	19	9	-
Department of the Treasury	20	5,930	5,786
Department of the Army	21	-	2
Office of Personnel Management	24	11,164	11,271
General Services Administration	47	5,817	5,899
Environmental Protection Agency	68	-	5
Department of Homeland Security	70	351	328
Department of Health and Human Services	75	28	63
National Archives Records Administration	88	29	28
Department of Defense	97	37	113
General Fund	99	2,635	2,443
<b>Total</b>		<b><u>\$ 27,055</u></b>	<b><u>\$ 26,993</u></b>

During FY 2008, TTB incurred costs with other Federal agencies totaling more than \$27 million. The majority of those costs were associated with the five entities detailed below.

- Department of Justice: TTB paid ATF \$679,000 for shared lab space and shared building 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 \$5.9 million.
- Office of Personnel Management: TTB incurred \$11.2 million in costs for employee benefits.
- General Services Administration: TTB paid \$5.8 million to GSA for rent and information technology services.
- General Fund: The Bureau paid \$2.6 million for employee benefits and lockbox fees.



# TTB 2008 Performance & Accountability Report

## Excise Tax and Other Collections

Other Supplemental Information							
Excise Tax and Other Collections by Fiscal Year							
Unaudited							
Dollars in Thousands							
Fiscal Year	Alcohol	Tobacco	FAET	SOT	FST	Other	Total
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
2005	7,074,076	7,409,608	225,818	10,190	9	141	14,719,842
2006	7,182,940	7,350,058	249,578	2,895	638	146	14,786,255
2007	7,232,138	7,194,081	287,835	2,808	-	32	14,716,894
2008	7,420,576	6,851,705	312,622	448	-	634	14,585,985
Average	\$ 6,980,402	\$ 7,045,127	\$ 225,208	\$ 63,373	\$ 38,024	\$ 222	\$ 14,352,356

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

The sharp decrease in SOT tax collections was the result of a new law that became effective during fiscal year 2005 that suspended the collection of most of the taxes. The law became permanent in 2008.

TTB collects Firearms and Ammunition Excise Tax (FAET) on behalf of the Department of Interior, U.S. Fish and Wildlife Service, and deposits the collections directly into the Fish and Wildlife Restoration Fund. During fiscal 2008, TTB incurred nearly \$3.2 million in direct and indirect costs associated with collecting the FAET taxes. The law currently does not provide for us to recover these costs. The cost of the program was communicated to the Fish and Wildlife Service so they could properly record an imputed cost in their financial records.

# TTB 2008 Performance & Accountability Report

## Refunds, Cover-over Payments, and Drawbacks Payments

### Refunds, Cover-over Payments, and Drawbacks Payments

Other Supplemental Information						
Refunds, Cover-over Payments, and Drawback Payments by Fiscal Year						
Unaudited						
Dollars in Thousands						
Fiscal Year	Cover-over Puerto Rico	Cover-over Virgin Islands	A&T Excise Tax	Drawbacks MNBP Claims	Interest and Other	Total
1999	\$ 234,673	\$ 2,782	\$ 4,513	\$ 259,214	\$ 1,559	\$ 502,741
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	1,216	713,767
2005	419,602	6,010	18,504	317,132	2,100	763,348
2006	358,664	6,491	17,524	337,632	699	721,010
2007	459,278	8,054	13,208	335,706	972	817,218
2008	373,418	7,615	14,125	283,462	2,938	681,558
Average	\$ 350,665	\$ 5,524	\$ 12,765	\$ 309,814	\$ 1,634	\$ 680,402

A&T - Alcohol and Tobacco

MNBP - Manufacturer of Nonbervage Products

Note - During December 2006, the Puerto Rico cover-over rate was increased from \$10.50 per proof gallon to \$13.25 per proof gallon, with retroactive provisions, resulting in a substantial increase in the Puerto Rico cover-over payments during fiscal year 2007.

# TTB 2008 Performance & Accountability Report

## **Part IV: Appendices**

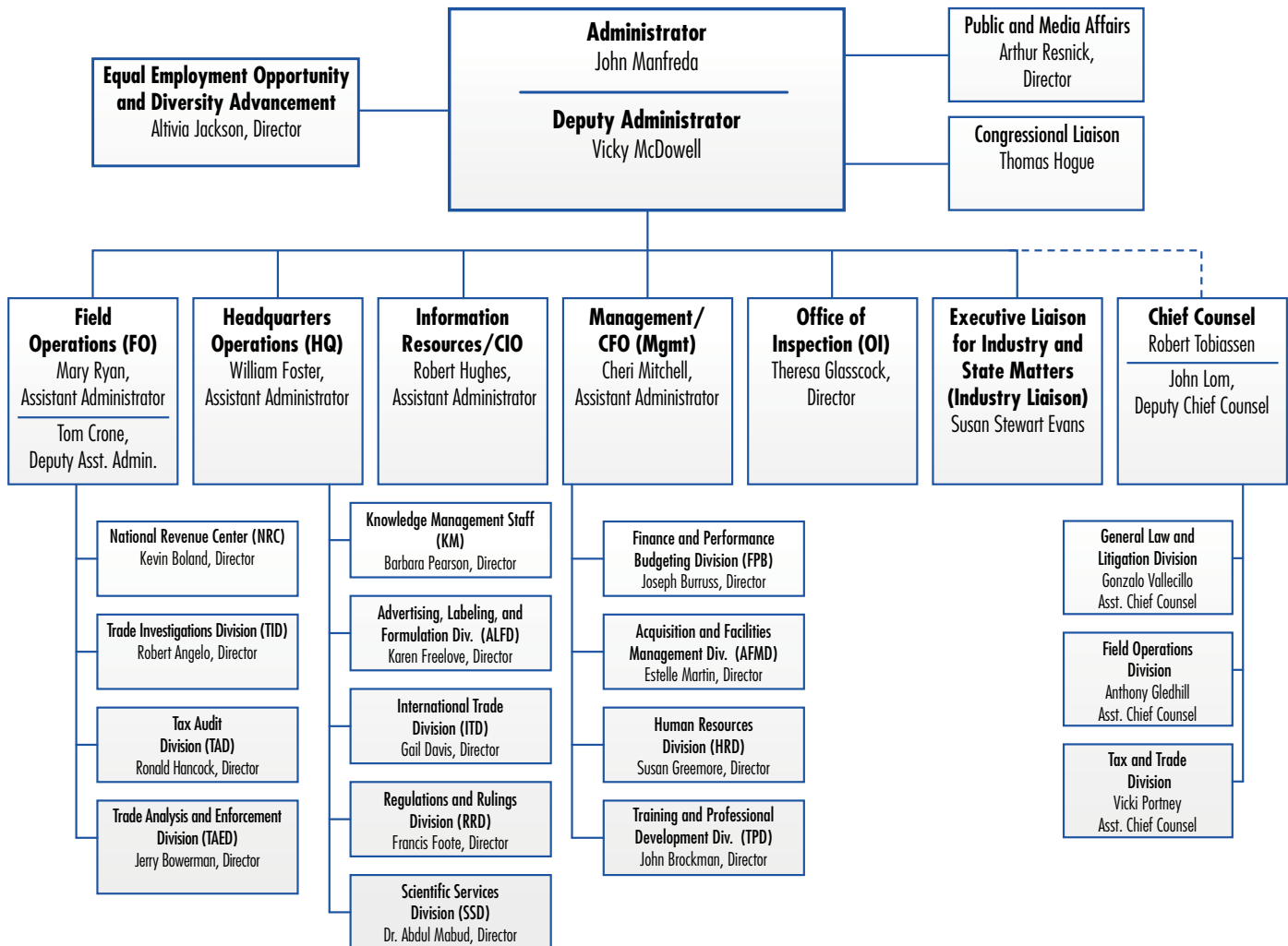
### PRINCIPAL OFFICERS OF TTB

Administrator . . . . .	John Manfreda
Deputy Administrator . . . . .	Vicky McDowell
Equal Employment Opportunity and Diversity . . . . .	Altivia Jackson
Assistant Administrator Field Operations . . . . .	Mary Ryan
Assistant Administrator Headquarters Operations . . . . .	William Foster
Assistant Administrator Management/CFO . . . . .	Cheri Mitchell
Assistant Administrator Management /CIO . . . . .	Robert Hughes
Director, Office of Inspection . . . . .	Theresa Glasscock
Executive Liaison for Industry and State Matters . . . . .	Susan Stewart Evans
Chief Counsel . . . . .	Robert Tobiassen

For additional information, contact:  
Alcohol and Tobacco Tax and Trade Bureau  
1310 G Street, NW  
Washington, DC 20220  
(202) 927-5000  
<http://www.ttb.gov>

# TTB 2008 Performance & Accountability Report

## TTB ORGANIZATION CHART



## CONNECTING THE TREASURY AND TTB STRATEGIC PLANS

Economy: U.S. and World Economies Perform at Full Economic Potential		
TREASURY STRATEGIC GOALS AND OBJECTIVES	TTB MISSION AND STRATEGIC GOALS	TTB PTP OBJECTIVES
<p><b>TREASURY ECONOMIC STRATEGIC OBJECTIVE:</b></p> <p>Improved economic opportunity, mobility and security with robust, real, sustainable economic growth at home and abroad</p> <p><b>Outcome:</b> Strong U.S. economic competitiveness</p>	<p><b>TTB MISSION: PROTECT THE PUBLIC</b></p> <p>1. <b>BUSINESS INTEGRITY:</b> Assure that only persons who carry permits as authorized by statute operate within the industries TTB regulates.</p> <p>2. <b>PRODUCT INTEGRITY:</b> Help industry members comply with all Federal labeling and advertising requirements for their products.</p> <p>3. <b>MARKET INTEGRITY:</b> Assure the alcohol marketplace is free from anti-competitive practices.</p> <p>4. <b>EFFECTIVE AND EFFICIENT SYSTEMS TO PROMOTE ECONOMIC OPPORTUNITY:</b> Facilitate economic opportunity and growth by maximizing TTB PTP systems' effectiveness and efficiencies.</p>	<p>TTB PTP 1.1 Issue permits to qualified applicants.</p> <p>TTB PTP 1.2 Assure that no current industry members are linked to criminal or terrorist organizations, or are otherwise a prohibited person.</p> <p>TTB PTP 2.1 Assure that industry members provide full and accurate product information to the consumer.</p> <p>TTB PTP 2.2 Assure that industry members avoid prohibited language and misleading statements on their labels and advertising.</p> <p>TTB PTP 3.1 Identify and address unfair trade practices and barriers in the U.S. alcohol marketplace.</p> <p>TTB PTP 3.2 Identify and address barriers in the international marketplace.</p> <p>TTB PTP 4.1 Increase effectiveness and efficiencies of TTB Protect the Public processes and systems</p>

# TTB 2008 Performance & Accountability Report

Finance: Effectively Managed U.S. Government Finances		
TREASURY STRATEGIC GOALS AND OBJECTIVES	TTB MISSION AND STRATEGIC GOALS	TTB CTR OBJECTIVES
<p><b>TREASURY FINANCIAL STRATEGIC OBJECTIVE:</b></p> <p>Available cash resources to operate the government as needed without excess</p> <p><b>Outcome:</b> Revenue collected when due through a fair and uniform application of the law.</p>	<p><b>TTB MISSION: COLLECT THE REVENUE</b></p> <ol style="list-style-type: none"> <li><b>1. OUTREACH/PROMOTE COOPERATION:</b> Provide high quality service, while imposing the least regulatory burden</li> <li><b>2. ENFORCEMENT:</b> Promote voluntary compliance and eliminate or prevent tax evasion and other criminal conduct</li> <li><b>3. EFFECTIVE AND EFFICIENT TAX COLLECTION SYSTEMS:</b> Provide the most effective and efficient system for the collection of all revenue that is rightfully due</li> </ol>	<p>TTB CTR 1.1 Improve service to the taxpayer and reduce the burden of compliance with Federal law [Service and Outreach].</p> <p>TTB CTR 2.1 Promote voluntary compliance and prevent tax evasion and identify other criminal conduct in the regulated industries [Enforcement].</p> <p>TTB CTR 3.1 Maximize electronic solutions [eGov].</p>
Security: Strengthened International Financial System Security and Enhanced U.S. National Security		
TREASURY STRATEGIC GOALS AND OBJECTIVES	TTB MISSION AND STRATEGIC GOALS	TTB PTP OBJECTIVES (Security)
<p><b>TREASURY SECURITY STRATEGIC OBJECTIVE:</b></p> <p>Minimized and neutralized threats to U.S. national security and international financial systems</p>	<p><b>TTB MISSION: PROTECT THE PUBLIC</b></p> <ol style="list-style-type: none"> <li><b>1. BUSINESS INTEGRITY (Security):</b> Assure that only persons who carry permits as authorized by statute operate within the industries TTB regulates.</li> </ol>	<p>TTB PTP 1.1 Issue permits to qualified applicants</p> <p>TTB PTP 1.2 Assure that no current industry members are linked to criminal or terrorist organizations, or are otherwise a prohibited person.</p>

# TTB 2008 Performance & Accountability Report

Management: Management and Organizational Excellence		
TREASURY STRATEGIC GOALS AND OBJECTIVES	TTB MISSION AND STRATEGIC GOALS	TTB MGT OBJECTIVES
<p><b>TREASURY MGT STRATEGIC OBJECTIVE:</b></p> <p>Constructive contribution to Americans' quality of life through an enabled and effective Treasury Department</p> <p><b>Outcome:</b> A citizen-centered, results-oriented and strategically aligned organization</p> <p>Exceptional accountability and transparency</p>	<p><b>TTB MISSION: MANAGEMENT AND ORGANIZATIONAL EXCELLENCE</b></p> <p>1. MANAGEMENT-SUPPORTED OPTIMUM PROGRAM EFFECTIVENESS AND EFFICIENCY:</p> <p>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>TTB MGT 1.1 Implement a performance-based management system for meeting TTB's mission.</p> <p>TTB MGT 1.2 To deliver streamlined, flexible, and robust IT solutions that maximize the performance, value, and results to enable TTB to fulfill its mission and goals.</p> <p>TTB MGT 1.3 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.</p> <p>TTB MGT 1.4 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>