

ALCOHOL AND TOBACCO TAX AND TRADE BUREAU



A proud past...



...A focused future



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**2006
Performance &
Accountability
Report**



Our mission is to collect alcohol, tobacco, firearms, and ammunition excise taxes, to ensure that alcohol beverages are labeled, advertised, and marketed in accordance with the law, and to administer the laws and regulations in a manner that protects the revenue, protects the consumer, and promotes voluntary compliance.

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Introduction

The Alcohol and Tobacco Trade and Tax Bureau (TTB) submits its 2006 Performance and Accountability Report. This document is not compulsory under the Government Performance Results Act (GPRRA), but the Bureau elected to present this report in an effort to communicate relevant performance and financial information on its fiscal year 2006 operations. Combining the program performance and financial information into a single document provides a comparison of actual performance with the projected or target levels of performance set out in agency planning documents and our annual performance budget.

The report incorporates information on our mission statement, planning tools, and valuable financial information. We also report on the Bureau's progress in implementing the President's Management Agenda (PMA) and the status of our performance measures.

The document is separated into 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.** In this section, the report provides a recap of each performance measure, the results of the Program Assessment Rating Tool (PART) evaluations, and an update on TTB's progress with the PMA.
- **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 has 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 summary of the challenges the Bureau faces, 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, strategic planning information that demonstrates linkages with the overall Department of the Treasury's mission and goals, and a history of the Bureau.

Message from the Administrator



In its third full year of existence, the Alcohol and Tobacco Tax and Trade Bureau (TTB) continues to make its mark as the newest bureau in the Department of the Treasury's long and illustrious history. The legislation passed in January 2003 establishing TTB as a new Treasury bureau with a mission as old as Treasury itself has resulted in a focused organization that does so much with so little - 544 direct Full Time Equivalents (FTE).

In FY 2006, the Bureau focused on its core missions to "Collect the Revenue" and "Protect the Public." TTB programs generated nearly \$14.8 billion in Federal excise taxes from the alcohol, tobacco, firearms, and ammunition industries and ensured that alcohol beverages were labeled, advertised, and marketed in accordance with the law. Also, the Bureau administered the laws and regulations in a manner that protects the revenue, protects the consumer, promotes voluntary compliance, and facilitates import and export trade in beverage and industrial alcohols.

TTB continues to emphasize reducing the taxpayer burden and increasing compliance through a variety of means, including rulemaking to ensure that our regulations are clear and up to date, and electronic Government initiatives that provide a more effective and efficient way for industry members to pay their taxes and to comply with regulatory requirements. We offer the alcohol and tobacco industries the electronic means to file tax returns, make payments, and submit operational reports. FY 2006 marked the first full year that TTB operated under its own IT infrastructure. While much of this electronic filing was already opened to industry, internal staff had to manually handle the received electronic files. The electronic filing and processing system (EFAPS) automates the entire end-to-end filing process and provides a solid foundation for e-enabling other TTB business processes with industry.

Also, we have implemented ways for beverage alcohol industries to submit labeling information online, saving them considerable time and money in reporting information and making applications. By the end of FY 2006, nearly 50 percent of all labeling information was submitted online. This is up from nearly 12 percent in the online program's first year of existence. This is critical considering that the number of applications have increased dramatically year to year while the number of FTE has remained at the same level. Fifteen employees processed roughly 113,000 applications in FY 2006.

TTB is a highly efficient bureau, dedicating minimal resources to administrative requirements. The Bureau collects \$323 for every \$1 it spends, an extraordinarily high productivity ratio. In FY 2006, the organization completed a business process reengineering study of its operations for its Protect the Public mission. A final report

was issued in July 2006. These studies are designed to further improve work flows, maximize the Bureau's resources, and improve its performance measurement focus. The organization is currently working in teams to review and implement as appropriate the review's recommendations.

TTB's focus on its efforts in creating an efficient and effective field audit and investigation program is designed to encourage voluntary compliance by industry members. This increased auditing and investigative work provides the public with the assurance that TTB will collect the taxes that are rightfully due and that safe products are truthfully presented in the marketplace, while causing the least possible burden for the industry.

TTB has played an active role in support of the U.S. Trade Representative when the United States and the European Community (EC) signed Phase I of the bilateral Wine Trade Agreement on March 10, 2006. TTB also played an active part in the Trade in Tequila Agreement, signed with Mexico on January 17, 2006. The Agreement prohibits Mexico from restricting bulk tequila exports to the United States and prohibits any extraterritorial reach of Mexican regulations on tequila labeling or marketing, as well as the labeling, formulation, and marketing of distilled spirits specialty products, outside of Mexico.

Legislation that amended the Internal Revenue Code of 1986 (IRC) for TTB's industry members was implemented for their first full fiscal year in FY 2006. Effective January 1, 2006, eligible taxpayers may pay their taxes and submit their returns on a quarterly basis, thus reducing the regulatory filing burden on those taxpayers.

Also, once more I am pleased to report that TTB provides reasonable assurance that the objectives under the Federal Manager's Financial Integrity Act (FMFIA) have been achieved. TTB's management and control systems as a whole, and financial integrity, provided reasonable assurance that TTB met the objectives of the FMFIA for FY 2006. TTB has no reportable conditions related to internal control and no reportable instances of noncompliance with laws and regulations that could have a direct and material effect on the financial statements.

Finally, for our customers and stakeholders, TTB will continue to work to provide excellence, value, and efficiency for both the Government and the regulated industries. We remain steadfast in pursuing our mission goals.



John J. Manfreda
Administrator

Vision, Goals, and Values

Vision

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

Goals

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

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

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

Values

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

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

Organizational Structure

Creation of a Bureau

The Homeland Security Act of 2002 rendered functions of the Bureau of Alcohol, Tobacco and Firearms (ATF) into two new organizations. The Act created within the Department of the Treasury the Alcohol and Tobacco Tax and Trade Bureau (TTB) and moved certain law enforcement functions of ATF to the Department of Justice. TTB became a Bureau on January 24, 2003.

TTB has two primary missions:

- Collecting the Revenue, and
- Protecting the Public.

Responsibilities

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

- a. Collecting alcohol, tobacco, firearms, and ammunition excise taxes and classifying alcohol and tobacco products for excise tax purposes;
- b. Investigating applications and issuing permits for the operation of distilleries, wineries, and breweries;
- c. Investigating applications and issuing permits for tobacco manufacturers, importers, and exporters;
- d. Regulating the operations of various industrial users of distilled

spirits, including manufacturers of non-beverage products and tax-free and denatured alcohols;

- e. Collecting special occupational taxes;
- f. Regulating the production, packaging, bottling, labeling, and storage of alcohol and tobacco products;
- g. Ensuring that labeling and advertising of alcohol beverages provide adequate information to the consumer concerning the identity and quality of the product;
- h. Preventing misleading labeling or advertising of alcohol beverages;
- i. Regulating the marketing, promotional, and trade practices of producers and certain distributors of alcohol beverages; and
- j. Enforcing provisions of the Alcohol Beverage Labeling Act, which mandates that a Government Warning Statement appear on all alcohol beverages for sale and distribution in the United States.

Key Components

TTB headquarters is located in Washington, D.C. and is comprised of roughly 150 employees. The largest component of TTB employees, about 180, are located at the National Revenue Center (NRC) in Cincinnati, Ohio. The remainder of TTB employees are located in field offices that have been established in several major U.S. cities, as well as Puerto Rico, or at TTB's

laboratory facilities located in Beltsville, MD and Walnut Creek, CA.

The primary components that comprise the TTB organization are briefly described below.

Office of the Administrator

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

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

Equal Employment Opportunity/ Diversity Advancement (EEO/ DA)

The EEO/DA office provides leadership, direction, and guidance in carrying out TTB's commitment to equal employment opportunity and diversity by: developing, directing, and administering EEO policies; supervising the EEO activities; processing and managing all EEO discrimination complaints; and recommending actions for complaints filed.

Chief Information Officer (CIO)

The CIO organization is responsible for planning, developing, implementing, and regulating information systems, telecommunications systems, and information systems security programs to support the regulatory and criminal enforcement missions and the associated administrative functions of TTB, and for providing effective and secure IT solutions that allow TTB to carry out its mission without imposing

undue burden on the industries that the Bureau regulates.

Industry Liaison

The Industry Liaison office develops and implements programs designed to provide harmonious relationships and effective interchanges between TTB, regulated industry members, and State alcohol regulatory and taxation agencies; facilitates the sharing of information between regulated industry members, State agencies, their representatives and trade associations, and TTB; informs other segments of TTB regarding industry and State activities and concerns; acts as TTB spokesperson to industry members, State administrators, and industry and State representatives and trade associations; represents TTB at industry and State meetings; and acts as the point of contact for industry members, State agencies, and industry and State representatives and trade associations.

Chief of Staff (COS)

The COS organization coordinates all elements of the Bureau's Congressional and media interaction, office and program reviews, emergency preparedness, physical and personnel security, and issues relating to the Bioterrorism Act.

Assistant Administrator Field Operations (FO)

The FO organization ensures tax and trade compliance with the Federal Alcohol Administration (FAA) Act and the Internal Revenue Code (IRC) by: providing assistance and advice to other Federal and State agencies, industry members, and the general public; developing and implementing programs to ensure effective tax and

trade compliance; and conducting tax audits and investigations at the regulated industries premises. In addition, the FO organization processes and examines excise tax returns, operational reports, claims, Special Occupational Tax returns, conducts appropriate collections activities for tax programs administered by TTB under Chapters 32 and 51 of the IRC, and processes original applications to establish businesses that produce, store, import, use, and deal in all types of alcohol, firearms, and tobacco products under the FAA Act and the IRC.

**Assistant Administrator
Headquarters Operations (HQ
Ops)**

The HQ Ops organization supports the Bureau in its efforts to protect the American public and the revenue generated from its regulated industries by: ensuring that alcohol products are produced, labeled, advertised, and marketed according to Federal laws and regulations; partnering with the industry in hopes of promoting voluntary compliance with Federal regulations; providing the public with easy access to Bureau information; using innovation and technology to improve business relations with its customers; pursuing scientific endeavors designed to improve compliance monitoring efforts; and fostering relationships with other Federal, State, local, and foreign government entities in order to prevent intrusion to the regulated industry.

**Assistant Administrator
Management/Chief Finance
Officer (AAM/CFO)**

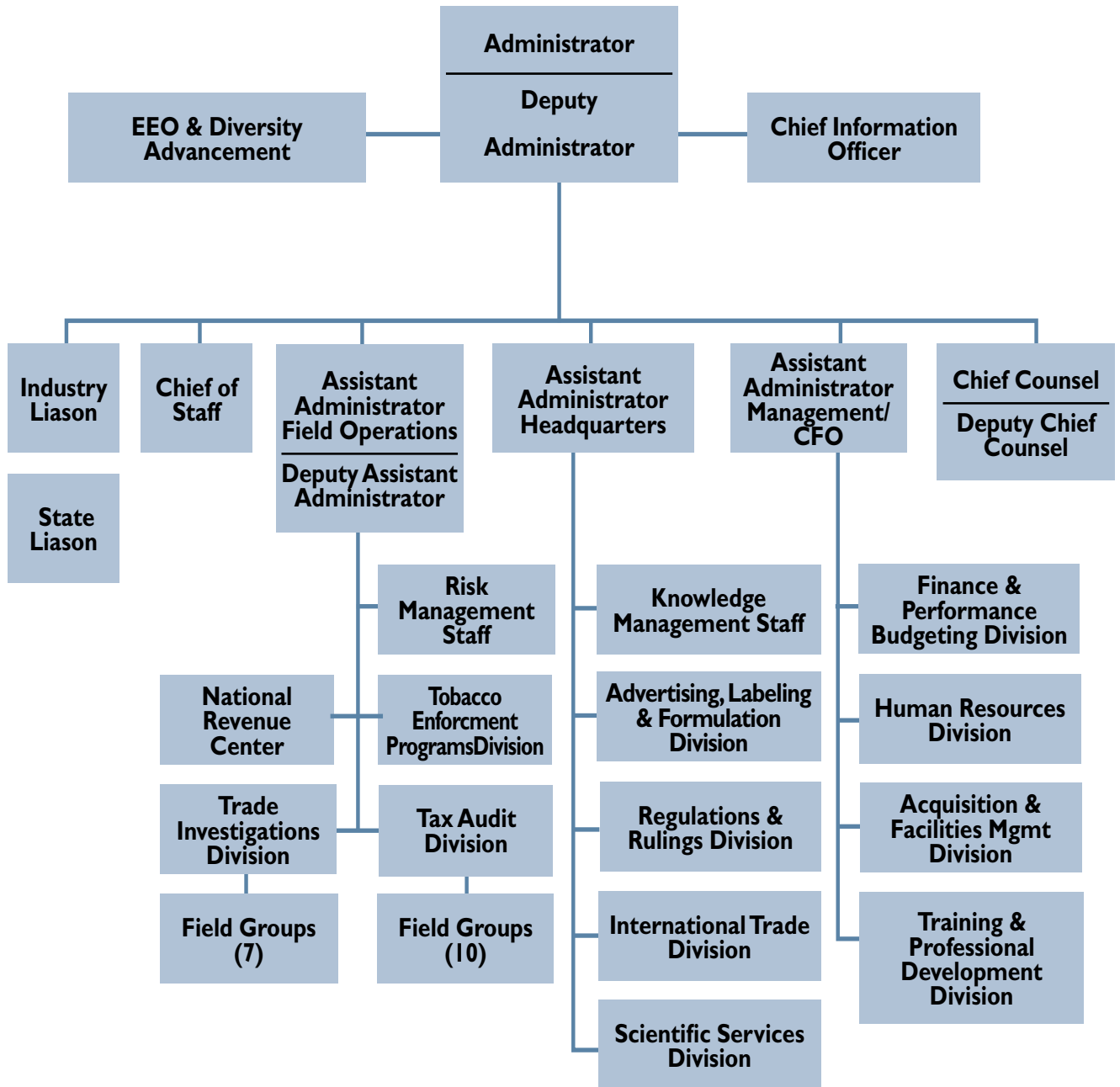
The AAM/CFO organization supports the mission of TTB by providing accurate, timely, and useful human resources,

facilities, procurement, training, strategic planning, and financial information and guidance; providing administrative control over the use of appropriated funds to ensure that the Bureau uses funds economically and efficiently and only for authorized purposes; ensuring that obligations and expenditures do not exceed amounts authorized and available; identifying managerial problems, defining their limits, and directing the resources necessary to resolve them; and developing policy and providing direction to managers and operational planners at all levels on strategic planning issues and practices.

Chief Counsel (CC)

The CC organization advises TTB on issues related to the regulated industries concerning licensing, product labeling, international trade and regulatory inspections. Legal advice is provided on tax issues related to the products that TTB regulates. Attorneys also represent TTB in alcohol and tobacco permit suspension or revocation and other administrative proceedings. The organization also provides advice concerning ethics, labor relations, equal employment opportunity, personnel, fiscal, contract and disclosure law, and represents TTB before the Merit Systems Protection Board, the Equal Employment Opportunity Commission, the Federal Labor Relations Authority, and the Board of Contract Appeals.

Organization Chart



Management's Discussion and Analysis

Part I

Management's Discussion and Analysis

Bureau Highlights

The United States and Mexico Sign an Historic Agreement on the Cross-Border Trade in Tequila



On January 17, 2006, a final United States and Mexico Agreement on the Trade in Tequila was signed by the official representatives of both countries. This signing ceremony was the culmination of two years and ten rounds of negotiations between the United States and Mexico.

Tequila is an alcohol beverage distilled from the agave plant and has been given worldwide recognition as a distinctive product of Mexico. As such, while 'Tequila' can only be produced in Mexico, bulk shipments of finished tequila, destined for bottling abroad, had been allowed. In August 2003, the Mexican Standards Bureau announced a proposal that the official standard for tequila would be amended to require that all tequila be 'bottled at source', in order to be labeled as tequila.

If the draft standard had been adopted, it would have threatened the huge

investments U.S. companies have made to build bottling plants and develop brands in the United States. Prompt action by the USTR and the cooperation of Mexican officials allowed tequila to flow uninterrupted for two years during the negotiations.

The U.S.-Mexico tequila agreement ensures that bulk exports of tequila from Mexico to the United States, valued at \$400 million per year, continue without interruption. The United States is Mexico's largest export market for tequila, accounting for 50 percent of Mexico's total production.

Specific tenets of the Agreement and associated documents can be found on the International Trade page at <http://www.ttb.gov/itd/index.shtml>.

TTB Played Key Role in Resolving Wine Trade Barrier with Germany

On March 10, 2006, the United States (US) and the European Union (EU) successfully ended 22 years of bilateral negotiations by co-signing the historic Agreement Between the United States and the European Community on Trade in Wine. This Agreement's first phase will apply new rules to the trading of wine between the two trade blocs by codifying the recognition of each other's winemaking practices, establishing a consultative process for accepting new winemaking practices, limiting the use of certain semi-generic wine names in the U.S. market, and recognizing certain

names of origin in each other's market. The Agreement also will simplify certification requirements for the trade in wine between the two markets. However, the course of the negotiations leading to the agreement did not run smoothly.

In November 2005, a major shipment of bulk Rose of Cabernet Sauvignon was detained at the German border. The German customs office demanded that the wine be exported out of Germany or destroyed. Germany attempted a highly publicized media campaign alleging that US wines were of inferior quality, manufactured artificially, and mislabeled.

US wine industry officials met with then U.S. Trade Ambassador and the TTB Administrator requesting swift and strong intervention against Germany's actions. The USTR immediately issued high-level diplomatic cables to its German counterparts in Berlin and TTB initiated three high-profile letters to corresponding customs officials strongly urging immediate release of the wine. The TTB letters clearly stated that the wine conformed to U.S. winemaking and labeling practices and therefore, under the signed United States and European Community Trade in Wine Agreement, is eligible to be labeled as Cabernet Sauvignon in Germany.

Ultimately, the U.S. government's position was officially sustained by the European Commission. In June 2006, the shipment was released for sale, thanks to TTB's timely intervention.

TTB Opens State-of-the-Art Compliance Laboratory in Walnut Creek, California



After receiving official notification from the Bureau of Alcohol, Tobacco, Firearms and Explosives (ATFE) to vacate the jointly occupied laboratory in Walnut Creek, TTB immediately put the wheels in motion to find a new facility.

The basis for the relocation was accreditation. ATFE had been informed by the American Society of Crime Laboratory Directors/Laboratory that sharing the space with another Federal agency was a violation of the certification policy.

A location was soon identified and funding was secured. The new laboratory, located in Walnut Creek, California, continues the lab's legacy of providing quality support to its primary customers—the investigators and auditors of TTB Field Operations.

The Compliance Laboratory provides support to TTB through routine product integrity testing, monitoring the regulatory compliance of both beverage and nonbeverage alcohol products, and onsite and online technical assistance to regulated industries, TTB investigators, and auditors. Laboratory personnel test samples collected by TTB field

personnel from on-site investigations and audits to determine if the product is in full compliance with the correct tax class and standard of identity. The official dedication ceremony for the new facility was held on June 14, 2006.

Results of Compliance Laboratory Survey of US Wines Dispel Barriers to Trade with European Union Countries



When the European Union (EU) proposed setting a limit for the presence of Ochratoxin-A, a naturally occurring toxin in wines obtained from certain grape harvests, TTB's Compliance Laboratory stepped in with an advanced screening process that demonstrated U.S. wines meet the EU's standards.

Ochratoxin-A (OTA) is a naturally occurring, cancer-causing toxin that usually originates from mold in grapes. OTA is present in raw cereal grains, coffee beans, cocoa beans, and dried fruits. It also has been detected in cereal products, coffee, wine, beer, spices, and grape juice. Once ingested, OTA may remain potent in the human body for a long time because of its slow degradation.

The EU proposed the limit of 2 parts per billion (ppb), which they consider

to be safe for human ingestion, in wines obtained from the 2005 grape harvest and subsequent harvests. The Compliance Laboratory conducted a screening program to confirm that the level of OTA in U.S. wines was within the limit. Under the program, the lab analyzed 114 domestic wines made from grapes harvested before 2004 and representing most of the U.S. wine producing states. The survey showed the presence of OTA in these wines at levels substantially below the 2 ppb limit set by the European Union (American Journal of Enology and Viticulture, 54(3); 170-177 2003).

This result suggested that U.S. wines tested contain safe levels of Ochratoxin-A and, therefore, would not pose any trade barrier in exporting U.S. wines to Europe. The Compliance Laboratory will continue to screen domestic wines annually for OTA to confirm that U.S. wines are safe to consume and suitable for export.

Protecting the Public: Approaches to Allergen Labeling



On July 26, 2006, TTB published interim regulations allowing voluntary labeling of major food allergens used in the production of alcohol beverage products. Under the interim regulations, producers, bottlers, and importers

of wines, distilled spirits, and malt beverages may declare the presence of milk, eggs, fish, Crustacean shellfish, tree nuts, wheat, peanuts, and soybeans, as well as ingredients that contain protein derived from these foods, on a product label. The interim regulations set forth mandatory rules regarding how industry members must undertake such labeling, should they choose to do so.

This effort stems from the passage of the Food Allergen Labeling and Consumer Protection Act of 2004 (FALCPA), which went into effect January 1, 2006. Although the FALCPA does not directly change alcohol beverage labeling law, the House Committee Report (H.R. Rep. No. 608, 108th Cong., 2d Sess., at 3 (2004)) accompanying the Act directed TTB to determine how to apply allergen labeling to beverage alcohol products, and to work with the Food and Drug Administration (FDA) in the promulgation of allergen labeling regulations for alcohol beverages.

At the same time, the Bureau is considering mandatory major food allergen labeling for alcohol beverage products.

Alcohol Beverage Advertising Program Takes Proactive Approach with Industry



We have all shared a chuckle at the clever commercials that keep us glued to our seats during Super Bowl halftime. Many of those advertisements are the brainchild of an innovative and cutting-edge alcohol beverage industry that is continuously conceiving new marketing techniques to reach consumers. TTB's job is to ensure that those consumers are informed and not misled by the claims that industry members make in their advertisements and marketing materials—however catchy the jingle may be.

In order to stay abreast of advertising that is using advanced technology to reach more consumers, as well as the rise in new trends in alcohol products emerging in the marketplace, TTB has stepped up its enforcement to become more proactive in the monitoring and reviewing of alcohol beverage advertisements that are introduced into the public media.

While TTB has always had the authority to regulate alcohol beverage advertising, the Bureau wanted to establish a program where it would be more involved or hands-on with the industry. As a result, the Alcohol Beverage Advertising Program was created. This new program consists of three different types of reviews: (1) referrals and/or complaints of ads that the Bureau receives either from other industry members, Government agencies, from employees within the Bureau, or from the general public; (2) pre-clearance of ads received from an industry member prior to its use; and, (3) audits of selected industry members' advertisements. While the first two types of reviews have always been conducted, the audit portion of the program is new.

During FY 2006, under the Alcohol Beverage Advertising Program more than 750 alcohol beverage advertisements, including posters, flyers, point of sale materials, press releases, Web sites, magazine and periodical ads, as well as television and radio advertisements, were reviewed to ensure compliance with the appropriate Federal laws and regulations. They were reviewed to ensure compliance with mandatory and prohibited statement requirements.

Under the audit portion of the program, industry members are selected based on various indicators such as prior compliance history, whether they have new high profile products hitting the stores, how long they have been in business, as well as random sampling factors. During FY 2006, TTB opened six audits into industry members' advertising programs and took corrective action where needed.

An advertising case also was opened against an industry member who willfully advertised its product as an "energy beer" in violation of Federal laws and regulations. TTB had notified several industry members that referring to an alcohol beverage product as an "energy" product was prohibited under the Federal Alcohol Administration Act. After TTB discussed the prohibited ads with this particular industry member and advised it to remove the ads from the marketplace, the industry member agreed; however, several months later the prohibited ads were discovered still out in the marketplace resulting in an uneven playing field. This case is still pending.

TTB Field Operations: Exceeding Taxpayer Expectations

The Alcohol and Tobacco Tax and

Trade Bureau (TTB) collected \$323 of revenue for every dollar spent to administer its tax collection operation. When compared to a recent OECD (Organization for Economic Co-operation and Development) study, TTB has the best results for resources as a percentage of revenue of any tax collecting organization in the world. TTB attributes this success to its professional working relationship with industry members as well as its lean administrative overhead. Since its first year in existence, TTB has seen its voluntary compliance rate rise from 80 percent in 2003 to over 86 percent in 2006.

In FY 2006, TTB collected \$14.786 billion in Federal excise tax (FET) from the alcohol, tobacco, and firearms and ammunition industries. The auditing, investigative, and analysis work performed by TTB's Field Operations staff ensure the fair and uniform enforcement of all applicable laws and TTB regulations while it collect the taxes that are rightfully due.

To that end, the Tax Audit Division (TAD) completed 128 audits of industry members in FY 2006, with an additional 46 audits in process. For fiscal years 2004 through 2006, 173 large taxpayer audits were completed for those industry members with an annual FET liability greater than \$250,000, representing about 93 percent of total tax revenues. In addition, TTB completed more than 100 audits of small taxpayers and/or manufacturers of nonbeverage products.

In developing intelligence regarding potential unlawful operations in the tobacco trade, the Tobacco Enforcement Division (TED) identified 160 companies importing tobacco

products into the United States without permits. These companies imported tobacco products worth a total of \$68,515,828, with uncollected excise taxes of approximately \$39,353,070 during the period of January through August 2006. TED also assisted the Bureau of Alcohol, Tobacco, Firearms and Explosives with an investigation that resulted in penalties and seizures of approximately \$7 million.

As part of TTB's efforts to improve turnaround times and customer service, the Bureau also undertook the restructuring of the National Revenue Center into three principal components: Tax Services, Applications Services, and Operations Services. These new branches align directly with TTB's strategic goals of improved efficiency and effectiveness.

TTB also protects the public from unsafe beverage alcohol and false or deceptive advertising or labeling claims. Investigators in the Trade Investigations Division (TID) help to carry out this mission by conducting onsite product integrity inspections to verify that alcohol beverage producers adhere to regulatory production standards and labeling rules. During FY 2006, TID initiated 533 product integrity investigations, 168 of which involved importers.

While TTB will continue to seek out violations to ensure a fair market with reliable products, the ultimate goal is to promote voluntary compliance with TTB regulations by communicating openly and effectively with its partners in the industry. To meet this commitment, Field Operations held 26 compliance seminars in FY 2006 attended by more than 1,800 industry members. These

seminars offered plain language guidance on how to comply with Federal rules and regulations. Though TTB is a tax collection authority, the professional and courteous manner of field personnel is widely recognized and appreciated within the industry.

TTB's Information Security Program: The Model to Emulate

The Federal IT community experienced the loss of a laptop computer containing sensitive data. The potential adverse impact of this loss was incomprehensible. Upon learning of this event, the Bureau did not wait to receive instructions from the Department or another Federal entity on how to address this potential problem. To ensure that measures were in place to prevent this type of situation or, in a worse case scenario, minimize the impact, TTB began formulating its own plan of action. TTB employees were immediately informed that they were prohibited from storing sensitive data on a USB hard drive, flash drive, CD, or DVD until an encryption solution was in place. Employees were reminded of their responsibility to safeguard against the loss of their portable laptop computers by keeping them on their person, securing them with laptop cable locks, and locking them in a safe when necessary. The Bureau then put into place an encryption process at the file and folder level. This critical measure was accomplished with minimal impact on employees.

By ensuring that all data stored on TTB's computers, whether a laptop or desktop, is both password protected and encrypted, The Bureau is providing maximum privacy for all sensitive TTB and industry data.

The Department's FY 2006 Security Program Review and Assistance report cited the security program established by TTB's Information Technology (IT) department as the model for the other bureaus to emulate.

Fully Operational IT Infrastructure Confirmed

The OCIO's first task in FY 2006 was to upgrade existing desktop and laptop computers for every TTB employee. The new equipment included newly designed software and security enhancements. All computers (existing and replacement) had to be identified and in many cases customized for the users. The rollout was completed ahead of schedule, within budget, and using the existing staff.

FY 2006 also marked TTB's first full year of operating under an independent IT infrastructure. Operating as an independent entity came with a great deal of responsibility, but TTB was more than capable of handling the challenge.

To ensure that TTB employees have access to their data at all time, the OCIO conducted a test of the IT disaster recovery capability. The test was purposed to determine if centrally stored user data, e-mail, and all critical applications could be replicated and run from two separate locations. The data center located at the 1310 G Street headquarters location was shut down and all critical applications were run from the National Revenue Center data center. TTB celebrated another success – all critical operations were up and running.

Providing Business Tools: Custom Application Development

EFAPS: With the migration to our own IT infrastructure completed, emphasis was placed on custom application development. TTB was able to place a number of applications into development in FY 2006. These included the electronic filing and processing system (EFAPS) and the Sunflower asset management system.

EFAPS is a streamlined, automated process for receiving tax returns, operational reports, and payments submitted through Pay.gov. It is designed to interface with existing TTB business systems.

EFAPS reduces paper, manual processing, and errors, and speeds up the payment process. The system also provides a file upload capability for Industry Members to submit operational reports and tax returns; TTB will receive information about payments processed by Pay.Gov through the standard Pay.Gov interface and will eliminate the customized data transfer between Pay.Gov, Mellon Bank, and TTB.

The EFAPS application represents the largest and most complex development ever undertaken by TTB and deploys true end-to-end electronic filing. TTB users now have a single user interface to locate imaged (paper) copies and electronically submitted operational reports and tax returns. This project was delivered with all critical capabilities in place.

Sunflower: The clock was ticking: TTB had six months to obtain and implement a system that would ensure that all

accountable property was properly tagged and inventoried. Further, the tagging and inventory procedures had to be in compliance with applicable laws and regulations.

The solution came in the form of software with a botanical name. Sunflower, a commercial off-the-shelf software product, became TTB's new asset management system. Sunflower allows its users to track all assets from acquisition to disposal. It also ensures that all procedures adhere to Federal Acquisition Regulations (FAR), Federal Property Management Regulations (FPMR), and the Joint Financial Management Improvement Program (JFMIP) guidelines.

After TTB awarded the contract to Sunflower, implementation activities shifted into overdrive. Within 90 days of the contract award, the system was installed, tested, and fully operational. Internal policies and procedures were developed, training materials were prepared, and an inventory of existing property was conducted. TTB property managers and the Facilities Management staff received training on the software.

The transition to the new system was virtually seamless. TTB was able to function independently of the service provider even before the extension period expired—thanks to the combined efforts of staff across the Bureau, and software with an unusual name.

Both EFAPs and Sunflower were true success stories for TTB because they were fully functional and compliant applications that were delivered within budget and on tight time constraints.

TTB Accounting Staff Heads to Cincinnati to Conduct an A-123 Review

TTB is charged with collecting alcohol, tobacco, firearms, and ammunition excise taxes. The Bureau's National Revenue Center (NRC), Tax Audit Division (TAD), and Office of the Chief Financial Officer (OCFO) play key roles in the collection of the taxes. In FY 2006, these products generated \$14.7 billion in Federal excise taxes, making TTB the third largest tax collection agency in the U.S. Government.

Identifying any non-compliance with tax requirements is a key component to collecting all the revenue rightfully due the Federal government. To accomplish this task, the Bureau has implemented a balanced approach of field audits and field investigations to target non-compliant industry members. This field presence also helps TTB to promote voluntary compliance among industry members who are not under audit or investigation. The vast majority of taxes collected by TTB are remitted to the general fund of the Department of Treasury (the Department). Firearms and ammunition excise taxes are an exception. Those taxes are remitted to the Fish and Wildlife Restoration Fund.

In coordination with the Department, the Bureau's OCFO conducted an A-123 compliance review of internal controls focusing on the first aspect of the Bureau's mission -- collecting alcohol, tobacco, firearms, and ammunition excise taxes. TTB was chosen to specifically review excise tax collections because the \$14.7 billion in excise taxes collected by TTB were 20 percent of the Department's \$71.9 billion in Federal excise tax revenue reported on the

Department's Statement of Custodial Activity. Treasury's Office of Internal Control determined that this line item on the financial statements was a material line item, and TTB needed to conduct the review of the reported account activity.

The Bureau was required to develop a testing plan and conduct testing to ensure that adequate internal controls exist in this area. In addition, TTB was charged with reporting those findings to the Department's Office of Internal Control. Work focused on a review of internal controls, searching for any major risks for fraud, waste, and abuse associated with the annual Federal excise tax collections. The team verified the accuracy and reliability of the tax collections against reports filed by industry members to ensure that the Bureau is collecting all the revenue rightfully due the Federal government.

The review was conducted onsite at the NRC. The review revealed no exceptions, material weaknesses, or reportable conditions. Rather, it confirmed that sound internal and administrative controls were present surrounding the Bureau's tax collection activities. The final report was filed with the Department of the Treasury.

TTB Receives High Marks for Weekly Newsletter

TTB broke new ground in the sphere of communicating with its stakeholders when it implemented a weekly e-mail newsletter. The idea of sending a newsletter via e-mail was developed by TTB's State Liaison who knew from personal experience that many State liquor administration employees, do not have the time to visit Web sites to

keep abreast of what other agencies are doing; rather, they rely on e-mail to circulate and receive the most current information. Each week the newsletter highlights information from our TTB.gov Web site, including new postings and announcements about upcoming TTB events, such as seminars or workshops. Periodically the newsletter also includes updates provided by State liquor administrators on current issues they are facing.

The newsletter is successful and popular. The distribution list has mushroomed to more than 700 subscribers, including persons at State and Federal agencies, regulated industry members, and people employed in allied trades, such as law firms, consultants, and publishers. TTB receives very positive feedback and high praise for the newsletter. Subscribers are pleased with the timeliness of the information and are particularly appreciative of having this information "pushed" to them. Based on the success of the newsletter, the Bureau is developing additional e-mail newsletters to cover targeted areas of interest, such as the electronic filing of COLAs (certificates of label approval).

Performance Summary

Collect the Revenue

TTB met all of its performance measures under the **Collect the Revenue** activity. A sixth measure was a baseline measure.

The investments in the Collect the Revenue Activity resulted in several accomplishments during FY 2006:

- TTB collected \$14.8 billion in excise taxes, interest, and other revenues from alcohol, tobacco, firearms, and ammunition industries from 7,500 excise taxpayers holding permits.
- TTB expanded the e-filing program to allow all excise taxpayers to file and pay taxes and file monthly operational reports electronically through the Pay.Gov system. In FY 2006, 98 percent of TTB's tax receipts were collected electronically.
- Voluntary Compliance: 76 percent of taxpayers filed payments on or before the scheduled due date.
- TTB continued its multi-year effort to audit the largest taxpayers. The cumulative audit results include an additional \$4.4 million in collections.
- TTB processed \$359 million in cover-over payments to Puerto Rico and \$6 million to the Virgin Islands. Federal excise taxes collected on rum produced in Puerto Rico and the Virgin Islands and subsequently imported into the United States are "covered-over" (or paid into) the treasuries

of Puerto Rico and the Virgin Islands.

- TTB processed \$338 million in drawback claims. Under current law, persons who use non-beverage alcohol in the manufacture of medicines, food products, flavors, extracts, or perfume and other non-potable products may be eligible to claim drawback of excise taxes paid on distilled spirits used in their products.
- TTB laboratories analyzed 2,259 beverage alcohol samples for product integrity, pre-import analysis, and 5010-tax credit determination. TTB also analyzed 312 tobacco product samples for tax classification. TTB laboratories review formulations or analyze alcohol and tobacco products to ensure compliance with TTB tax and classification regulations.

Protect the Public

TTB met two of its three performance measures under the **Protect the Public** activity. The only measure not met is the percentage of Certificates of Label Approval applications processed within nine calendar days following receipt. This measure is an indicator of the challenge of keeping up with an escalating workload (in terms of the number of label transactions) with a constant level of staff.

The investments in the Protect the Public Activity resulted in several accomplishments during FY 2006:

- TTB processed 114,000 Certificate of Label Approval (COLAs) applications, 37 percent of which were filed electronically through COLAs Online. The Federal Alcohol Administration Act requires importers and bottlers of alcoholic beverages to obtain a COLA prior to introduction of the product into commerce.
- TTB issued 5,400 original and 21,000 amended permits. TTB issues original and amended permits to persons who are engaged in the alcohol and tobacco industries. Illicit activity in these industries has the potential to be highly lucrative so it is crucial that organized crime and terrorists are kept out of these industries. TTB conducted 473 field investigations on the most high-risk applications to ensure objectives of the Anti-Terrorism Act of 2001 were met.
- TTB participated in negotiations between the United States and Mexico regarding cross-border trade in tequila, which resulted in a signed agreement on January 17, 2006. This agreement protects approximately \$560 million per year of tequila imports in terms of gross revenues to major members of the distilled spirits industry.
- TTB played a significant role in negotiating an agreement between the United States and the European Community regarding trade in wine, which was signed on March 10, 2006.

This agreement covers wine-making practices and labeling, and will facilitate bilateral trade in wine valued at \$2.8 billion annually.

- TTB conducted 832 field application investigations of industry members regarding consumer complaints, trade practice violations, and product and labeling integrity verifications.

Financial Summary

Federal Excise Tax Collections

TTB collects excise taxes from the alcohol, tobacco, firearms, and ammunition industries. In addition, we collect Special Occupational Tax (SOT) from certain alcohol and tobacco businesses. During FY 2006, TTB collected \$14.8 billion in taxes, interest, and other revenues.

Substantially all of the taxes collected by TTB net of related refund disbursements are remitted to the Department of the Treasury General Fund. The Department further distributes this revenue to Federal agencies in accordance with various laws and regulations. The firearms and ammunition excise taxes (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 2006 Excise Tax Collections:

Alcohol	\$7,182,940,000
Tobacco.....	\$7,350,058,000
FAET	\$249,578,000
SOT	\$2,895,000
Other.....	\$784,000
Total	\$14,786,255,000

Note: Recent law suspended Special Occupational Taxes on most alcohol taxpayers, effective July 2, 2005. 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.

Refunds and Other Payments

During FY 2006, TTB issued \$721,010,000 in refunds, cover-over payments, and drawback payments.

Alcohol and Tobacco Excise Tax Refunds. . . .	\$17,524,000
Cover-over Payments — Puerto Rico	\$358,664,000
Cover-over Payments — Virgin Islands.	\$6,491,000
Drawbacks on MNBP Claims	\$337,632,000
Interest and Other Payments	\$699,000
Total	\$721,010,000

Cover-over Payments

Federal excise taxes are collected under the Internal Revenue Code of 1986, 26 U.S.C., on certain articles produced in Puerto Rico and the Virgin Islands, and imported into the United States. In accordance with 26 U.S.C. 7652, such taxes collected on rum imported into the United States are “covered over” or paid into the treasuries of Puerto Rico and the Virgin Islands. For FY 2006, TTB processed \$359 million in cover-over payments to Puerto Rico and \$6 million to the Virgin Islands.

Drawback Payments

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

During FY 2006, drawback payments totaled roughly \$338 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 refund is due 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 non-beverage claim.

FY 2006 Bureau Budget:

Direct Appropriations

The FY 2006 budget for salaries and expenses is \$90,215,000. The authorized full time equivalent (FTE) staffing level is 544. The Bureau obligated 99.9 percent of its FY 2006 budget.

Offsetting Collections and Reimbursable Accounts

The Bureau was allocated \$1.7 million and 15 FTE for FY 2006 to cover the operating costs of the Puerto Rico office. The actual reported costs were \$1.6 million, which was offset against the cover-over payments made by the United States to Puerto Rico. All operating costs associated with the Puerto Rico office are paid from the cover-over taxes collected in the United States on products originating in Puerto Rico and the Virgin Islands.

In Puerto Rico, TTB conducts annual audit 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 requirements of verifying tax payments under the Internal Revenue Code and subsequent accountability of all cover-over amounts due to the Puerto Rican government.

All tobacco products manufacturers, distilled spirits producers/processors, wineries, wholesalers, importers, MNBP claimants, and specially denatured alcohol permit applicants, are subject to a qualification inspection under the Code of Federal Regulations and the FAA Act. Additionally, MNBPs and major producers of distilled spirits, wine, and malt beverages are subject to inspection and audits.

Unaudited Financial Statements

The Department of the Treasury is one of 23 Federal agencies that are required by Federal 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 2006 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 United States. The report did not disclose any material weaknesses on internal controls or reportable conditions on TTB.

For purposes of TTB's Performance and Accountability Report (PAR), we include "unaudited" financial information that pertains exclusively to TTB, as a separate entity. This information can be used as a useful tool in understanding the financial operations of TTB.

Although these statements are not independently audited, the information

should be viewed as reliable and accurate information on the Bureau's financial operations.

Federal Managers' Financial Integrity Act

TTB provides a "reasonable assurance" that the objectives of FMFIA have been achieved and we are confident that we are in "substantial compliance" with the Federal Financial Management Improvement Act. This overall determination is based on past and current practices, improved controls environment, scrutiny by external audit sources, internal evaluations, and administrative and fiscal accounting system enhancements.

For FY 2006, TTB did not have any reportable conditions related to internal control and no reportable instances of noncompliance with laws and regulations that could have a direct and material effect on our financial statements.

Challenges

This section is reserved to focus on the agency's most serious management and performance challenges, as identified by the Inspector General's Office. For FY 2006, TTB received no reported serious performance challenges or related audit issues from Treasury's Inspector General.

Part II

Performance Goals, Objectives, and Results

Performance Measures

Performance Measure Status

Performance Targets Met	7
Performance Targets Not Met	1
Baseline	1
Total Performance Measures	9

TTB tracked nine measures in FY 2006 and met all but one. The performance measure that TTB missed is entitled "Percentage of COLA approval applications processed within 9 calendar days of receipt." This measure is defined as the percentage of Certificates of Label Approval (COLA) processed electronically and by paper within 9 days of receipt. The data source is the COLAs Online data base system. Periodic statistical reports, searches, and queries are generated for management review. The explanation for the shortfall is as follows: This aggressive measure shows a shortfall as a result of an eight percent increase in applications which are processed by a constant FTE level. Also, the complexity of the review process has increased significantly since the 9-day goal was put in place in the early 1990s. The workload increased dramatically during the year while the FTE level remained constant.

The baseline measure that TTB has begun to track, "Unit cost to process an excise tax return based on new legislation," is

an amended version of an old measure. This measure represents the total costs of processing all excise tax returns divided by the total number of returns. "New legislation" refers to a change in legislation which reduced the burden on small businesses by requiring filing less frequently. As a result of the change in legislation, the comparison of the cost of processing an excise tax return previously reported compared to the amended measure was not an "apples-to-apples" comparison. Therefore, TTB established a new baseline.

The Bureau captures performance information on program operations on a routine basis for internal management purposes. Also, TTB is creating long-term goals for most of the performance measures in order to further monitor effectiveness. TTB continues to assess performance for each goal and new performance measures are forthcoming.

During FY 2006, TTB's staff assisted the Department as part of the Treasury Strategic Planning Working Group in establishing a new Treasury Strategic

Performance Goals, Objective, and Results

Plan. This process will assist TTB in developing its new strategic plan as well as new performance measures that will better align with the new Treasury Strategic Plan. This coordinated effort is expected to result in better outcome measures that will make it possible to readily identify how TTB is meeting its objectives in achieving its mission.

Further, this coordinated effort will provide a roadmap that will show how TTB links its mission to the Department's overarching goals and mission.

Following is a comparison of actual performance-to-performance goal target levels for the nine measures that TTB tracked in FY 2006.

Activity: Collect the Revenue

Performance Measure: Percentage of total tax receipts collected electronically.

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

Type of Measure: Efficiency

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

FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006		FY 2007 Proposed
			FY Plan	FY Actual	
98%	97.3%	98%	98%	98%	98%

FY 2006 Performance: Target Met

Performance Measure: Percentage of voluntary compliance in filing timely and accurate tax payments in terms of revenue.

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

Type of Measure: Outcome

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

FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006		FY 2007 Proposed
			FY Plan	FY Actual	
80%	81.2%	86.3%	86%	86%	86%

FY 2006 Performance: Target Met

Performance Measure: Percentage of voluntary compliance in filing timely and accurate tax payments in terms of the number of compliant industry members.

Definition: The portion of total taxpayers, by number, of compliant industry members that file payments on or before the scheduled due date, without notification of any delinquency.

Type of Measure: Outcome

Source: Late-filed tax payments are maintained in the Federal Excise Tax system.

FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006		FY 2007 Proposed
			FY Plan	FY Actual	
57%	63%	70%	74%	75.95%	74%

FY 2006 Performance: Target Met

Performance Measure: Unit cost to process an excise tax return based on new legislation.

Definition: Represents the total costs of processing an excise tax return divided by the number of returns.

Type of Measure: Efficiency

Source: Information is derived from the Oracle reports/Integrated Revenue Information System (IRIS).

Note: “New legislation” refers to a change in legislation regarding the frequency requirements in which small businesses are required to pay excise taxes. TTB reduced the burden on small businesses by requiring filing less frequently.

FY 2002 Actual	FY 2003 Actual	FY 2004 Actual	FY 2005		FY 2006 Proposed
			FY Plan	FY Actual	
N/A	N/A	N/A	Baseline	\$76	\$76

FY 2006 Performance: Target Met

Performance Measure: Resources as a percentage of revenue.

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

Type of Measure: Efficiency

Source: Taxes collected is captured by the Federal Excise Tax database; expense data is maintained in Oracle Financials.

Note: TTB reports the amount of Collect the Revenue resources as a percentage of total excise tax revenue collected. This measure has been reported in this manner since a Collect the Revenue Program Assessment Rating Tool (PART) study was performed in FY 2005. If the numerator and denominator were reversed, this measure would show that TTB collected \$323 of revenue for every dollar of “Collect the Revenue” administrative cost.

FY 2002 Actual	FY 2003 Actual	FY 2004 Actual	FY 2005		FY 2006 Proposed
			FY Plan	FY Actual	
0.39%	0.27%	0.37%	0.34%	0.31%	0.34%

FY 2006 Performance: Target Met

Performance Measure: Cumulative percentage of excise tax revenue audited over three years.

Definition: Cumulative percentage of the taxpayers that have been audited within a three year cycle.

Type of Measure: Outcome

Source: Audit reports issued for audited taxpayers. TTB tracks completion of all scheduled audits.

Note: TTB completed a three year cycle in FY 2006 in which TTB audited 93% of revenue dollars. FY 2007 begins a new cycle in which TTB expects to audit only 12% of revenue in the first year, but still intends to audit 90% of revenue by the end of the third year of the cycle. In the first year of the cycle TTB intends to audit a greater number of smaller industry members that have not been audited over the past three years. This decision will result in significantly reduced “excise tax revenue” dollars audited for the first year.

FY 2002 Actual	FY 2003 Actual	FY 2004 Actual	FY 2005		FY 2006 Proposed
			FY Plan	FY Actual	
–	37%	82%	90%	93%	12%

FY 2006 Performance: Target Met

Activity: Protect the Public

Performance Measure: Percentage of COLA applications processed within nine calendar days of receipt.

Definition: The percentage of Certificate of Label Approval (COLA) applications processed electronically and by paper within 9 days of receipt.

Type of Measure: Efficiency

Source: Data are captured through the COLAs Online database system. There are periodic statistical reports, searches, and queries that are generated.

FY 2002 Actual	FY 2003 Actual	FY 2004 Actual	FY 2005		FY 2006 Proposed
			FY Plan	FY Actual	
57%	23%	50%	55%	44%	45%

FY 2006 Performance: Target Not Met

Performance Measure: Percentage of electronically filed COLA applications.

Definition: Represents the percentage of electronically filed COLA applications submitted for processing. The measure is calculated by dividing the number of e-filed applications by the total COLA applications submission (paper and electronic).

Type of Measure: Efficiency

Source: Data are captured through the COLAs Online database system. There are periodic statistical reports, searches, and queries that are generated.

FY 2002 Actual	FY 2003 Actual	FY 2004 Actual	FY 2005		FY 2006 Proposed
			FY Plan	FY Actual	
3%	10%	25%	27%	38%	47%

FY 2006 Performance: Target Met

Performance Measure: Percentage of permit applications (original and amended) processed by the National Revenue Center (NRC) within 60 days.

Definition: Percentage of permit applications (original and amended) processed by the National Revenue Center (NRC) within 60 days.

Type of Measure: Efficiency

Source: Data are captured through the Integrated Revenue Information System (IRIS) at the NRC. The NRC generated statistical reports, searches, and queries.

FY 2002 Actual	FY 2003 Actual	FY 2004 Actual	FY 2005		FY 2006 Proposed
			FY Plan	FY Actual	
–	–	81%	80%	86%	80%

FY 2006 Performance: Target Met

Program Assessment Rating Tool

Program evaluation is a core management objective used by TTB to allocate resources and promote efficiency and effectiveness. It is a vital part of TTB's efforts to meet strategic objectives. TTB completed its first Program Assessment Rating Tool (PART) review for the "Collect the Revenue" activity in the spring of 2005. TTB received the highest rating possible -- **EFFECTIVE**.

How TTB Uses PART Evaluations

As part of the President's Management Agenda, the PART process gives TTB a framework for assessing performance. The goal of the PART is to evaluate program deficiencies, determine the causes for strong or weak performance, and take action to remedy deficiencies and achieve better results.

Through the use of in-depth performance questions, PART allows TTB to evaluate how well a program is meeting its intended objectives, how effectively and efficiently it is managed, and the extent to which the program supports overarching strategic goals.

Summaries of TTB's PART program evaluations are included to demonstrate actions that TTB has taken to improve program performance.

PART Evaluation Criteria

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

The Office of Management and Budget summarizes PART scores as effective, moderately effective, adequate, results not demonstrated, or ineffective.

Program	Bureau	Rating	Date Completed
Consumer Product Safety Activities/ Protect the Public	ATF	Adequate	FY 2003
Collect the Revenue	TTB	Effective	FY 2005

PART Program Name: *Collect the Revenue*

Rating: Effective

Major Findings/Recommendations

- Develop baseline for annual performance measures.
- Improve estimates of how funds are distributed across TTB's two lines of business to ensure that funds are obligated in accordance with planned schedules.

- Develop a baseline to compare the incremental cost and net benefits of regulation.

Actions Taken, Planned or Underway

- Completed its baseline measure in FY 2006. This required action is complete.
- Uses the Bureau of Public Debt (BPD) Administrative Resource Center (ARC) accounting system, which allows for the allocation and tracking of distributed funds. This system had not been in service for a full year's data when the PART study was in progress. This required action is now complete.
- Performed a cost-benefit study based on economic impacts based on incremental time savings which are tied to performance measures. This required action is complete.

PART Program Name: Protect the Public (a.k.a., FY 2002 Alcohol, Tobacco, and Firearms Consumer Product Safety PART)

Rating: Adequate

Major Findings/Recommendations

- Establish clear guidelines and procedures to ensure that goals are very specific.
- Establish written guidelines and supporting documentation for all aspects of the program.
- Refine performance measures to more accurately reflect the goals and achievements of the program.
- Develop baseline for annual performance measures.

Actions Taken, Planned or Underway

- Hired a contractor to review the Protect the Public processes and measures. Completed the study in the summer of 2006 and developed teams to review the recommendations. TTB is in the process of reviewing the recommendations for possible implementation. TTB has taken action and the guidelines and goals are nearly complete.
- The independent business process reengineering study mentioned above and completed in FY 2006 led to recommendations for refining performance measures that will more accurately reflect the goals and achievements of the program (e.g., outcome measures). In FY 2006, TTB took action to refine performance measures.

President's Management Agenda

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

The five initiatives are:






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




Ratings are given for each initiative and are designated as red (unsatisfactory), yellow (mixed results), or green (successful).

The scorecard below shows the status for TTB at the end of FY 2006 based on the Bureau's self-assessment:

PMA Scorecard Based on TTB Self-Assessment

Initiative *Status FY 2005*

Human Capital	
Competitive Sourcing	
Financial Performance	
E-Government	
Budget-Performance Integration	

Green for Success 	Yellow for Mixed Results 	Red for Unsatisfactory 
----------------------------------------------------------------------------------------------------------	-----------------------------------------------------------------------------------------------------------------	-----------------------------------------------------------------------------------------------------------------

● *Strategic Management of Human Capital—Successful*

TTB has outsourced all of its human resource functions to the Bureau of Public Debt (BPD). Performance benchmarks and measures are in place to monitor the performance of these contracts.

In FY 2006, TTB completed an evaluation of the Pay Demonstration Project. The goals of the project were to increase the quality of new hires, enhance the ability to motivate and retain good performers, improve organizational and individual performance, and to support EEO/diversity goals by providing an opportunity for a more diverse workforce. The evaluation indicated that the program is meeting the primary objectives of attracting, recruiting, and retaining quality employees. Overall, the evaluation indicated that Pay Demo employees and supervisors are in favor of the program moving from the pilot stage to a permanent pay system.

TTB issued a series of human resources policies during FY 2006. These included the Student Loan Repayment Program, Compensatory Time Off for Travel, Administrative Grievance System, Employee Assistance Program, and Student Educational Employment Program.

TTB also exceeded the Treasury hiring goal of 45 days with an overall average of 33 days. TTB also achieved the highest response rate in Treasury on the 2006 Federal Human Capital Survey – 80%.

In the area of employee training and development, TTB established a two week training program for new

supervisors in conjunction with the Management Development Centers, conducted mid-career retirement planning seminars for both CSRS (Civil Service Retirement System) and FERS (Federal Employee Retirement System) employees; and delivered a series of training courses specifically for field personnel.

During FY 2006, the Bureau introduced its first formal mentoring program. The goals of the program are to provide employees with one-on-one guidance, strengthen relationships throughout the organization, and motivate employees to excel. The program is designed to enhance employees' skills, maximize their capabilities, and prepare them to be future TTB leaders.

TTB also developed the Early Conflict Prevention and Resolution (CPR) Program. Through an informal confidential process, employees are provided with an opportunity to air their concerns (vent) without fear of reprisal apart and separate from both the EEO Complaints and Administrative Grievance processes. This program has proven to be very helpful in maintaining a stress free and productive environment for our employees.

The Bureau also conducted a total workforce diversity/affirmative employment analysis that identified barriers, goals, and measures of progress.

● *Competitive Sourcing—Successful*

TTB has created a streamlined organization by contracting with Federal agencies and commercial sources for services that are not inherently governmental (e.g., human resources, information technology, and accounting), and continues its strategy of outsourcing its services and functions wherever possible. As such, TTB is comprised of 88% inherently governmental services and 12% commercial activities as substantiated by the Bureau's FY 2006 FAIR Inventory.

TTB continues to focus on the principles and goals of competitive sourcing through maintaining the appropriate balance of activities performed by the government and commercial sources. TTB's strategy of outsourcing is an example of proactive leadership that embodies the spirit of competitive sourcing.

● *Improved Financial Performance—Successful*

TTB achieved "green" status in this initiative based on the Bureau's self-assessment. No unresolved internal control material weaknesses or reportable conditions were found and all audits have been unqualified. TTB has complied with all Departmental annual audit requirements, including A-123 reviews.

Cash accounts are reconciled within 45 days after the end of an accounting period. TTB has achieved a prompt payment timeliness rate of 99% or more and also achieved a 99% or more

compliance rate for electronic fund transfer. TTB met established due dates for required Financial Management Service's reports.

The Bureau has successfully used financial management to meet financial deadlines and avoid Anti-Deficiency Act violations.

● *Expanded Electronic Government—Successful*

The Bureau has a modernization blueprint that focuses information technology (IT) investments in important Bureau functions and defines how those functions will be measurably improved. All TTB systems and projects have business cases. TTB does not have cost and schedule overruns for major IT projects. IT projects are delivered on time and on budget.

All data stored on TTB computers are both password protected and encrypted, providing maximum privacy for all sensitive TTB and industry data.

TTB's disaster recovery capabilities have been fully tested and results indicated that recovery capabilities are operational.

All TTB systems and projects have approved business cases, and 100 percent of IT systems have certification and accreditation. The Inspector General verifies that there is a Department-wide IT security remediation process.

● *Budget and Performance Integration—Successful*

TTB has worked extensively to refine its performance goals and measures and integrate them into its management and business practices. The Bureau's integrated financial system now tracks more than 90 programs and projects that support TTB's two strategic goals of Collecting the Revenue and Protecting the Public.

TTB is working with a contractor on activity-based costing in order to identify projected unit costs for processing COLAs, permits, formula submissions, and American viticultural area petitions. This will improve the Bureau's managerial cost accounting data, thereby assisting TTB in determining the cost of doing business and the marginal cost of any new budget initiatives.

Part III

Financial Results, Position, and Condition

Message from the Chief Financial Officer



I am pleased to present the Alcohol and Tobacco Tax and Trade Bureau's (TTB) fiscal year 2006 Performance and Accountability Report, which provides an accounting of our operations and organization performance. Collecting Federal excise taxes is integral to the Bureau's core mission, with annual revenue collections at roughly \$15 billion in Federal alcohol, tobacco, firearms, and ammunition excise taxes

During FY 2006, TTB implemented an ambitious agenda that focused on improving the performance of our programs and included a number of fundamental organizational changes and implementation of recommendations from business process reengineering efforts on our core business processes. Furthermore, to provide the most efficient and cost effective delivery of administrative, information technology, and financial services, TTB outsourced its financial and administrative support services to the Bureau of Public Debt Administrative Resource Center (BPD ARC) located in Parkersburg, West Virginia, and its technology services with commercial firms. Our outsourcing relationship with the BPD ARC continues to provide a successful vehicle for our excellent, low-cost financial and administrative activities, along with our outsourcing arrangement with the private sector for information technology services. We plan to continue to foster these long term partnerships in the future.

In FY 2006, TTB collected \$14.8 billion in Federal excise tax revenues and those collections were \$66 million higher than FY 2005. We processed tax returns and operational reports from 7,500 industry members and expanded the e-filing program to allow all taxpayers to file and pay taxes electronically through the Pay.gov program. Presently, more than 1,600 industry members have enrolled in this program. Of paramount importance, our industry members submit 98 percent of their annual taxes using electronic fund transfers. TTB continued our education and outreach to taxpayers to help our industry members understand their filing, tax reporting, and payment obligations, and to improve voluntary compliance. The Bureau achieved a voluntary compliance performance rate of 76 percent; 76 percent of taxpayers filed payments on or before the scheduled due date. The Bureau also processed refund claims in the amount of \$338 million to Manufacturers of Non-Beverage Products (MNBPs) and paid approximately \$359 million to the government of Puerto Rico and

\$6 million to the government of the Virgin Islands under the “cover-over” imposed on rum and distilled spirits.

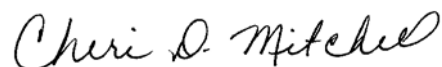
TTB’s Protect the Public strategy assures the integrity of products and industry members in the marketplace, provides information to the public as a means to prevent consumer deception, and ensures compliance with laws and regulations. TTB enforces Federal laws related to labeling, advertising, and marketing of alcohol and tobacco products through education, inspection, laboratory testing, and investigation.

We continued to foster and encourage an agency culture that emphasizes the importance of integrity and ethical values, with a strong commitment to sound and effective internal controls. The Bureau maintains a quality management internal control program, which requires the CFO to provide an assertion on the effectiveness of internal controls, as well as to outline any necessary corrective actions to the Department of the Treasury. In FY 2006, TTB conducted a special review of its revenue collection activities. The review indicated that the Bureau had no significant reportable conditions or material weaknesses in internal controls to report this year. This level of achievement is indicative of the top to bottom organizational commitment to maintaining excellence in financial management and reporting. Rest assured that we have no plans of becoming complacent and remain committed to having a strong internal control program, which will require us to continue our review and assess our vulnerability to risk in critical areas of the organization.

TTB will continue to work toward an all electronic bureau, to streamline taxpayer payments and collection processes, to invest in state of the art technology, to apply best practices and benchmarks to analysis, and to improve core business processes. We fully anticipate these efforts will yield benefits through a decrease in program costs and an increase in efficiencies. These positive costs benefits will help us to manage our biggest challenges: rising costs due to new industry members, to meet industry demands for new and amended permits, and to obtain certificates of label approval to take their alcohol products to market. We will continue to monitor the costs of delivering our core business services to our industry members.

The successful results demonstrated from the performance management system shows that the Bureau achieved its performance measure targets in FY 2006 due to the high level of professionalism and technical expertise of our staff and organizational commitment to our mission.

As always, exceptional business practices require meeting the challenges that lie ahead. These challenges are still considerable, but we remain committed to using financial and performance information to find new ways to improve accountability, focus on results, and make sound financial decisions.



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

Budget Highlights by Fund Account

Salaries and Expenses

The FY 2006 TTB budget of \$91,915,000 consists of direct appropriations of \$90,215,000 and offsetting collections of \$1,700,000 in reimbursable funding. The budget authorizes the full time equivalent (FTE) staffing level at 544 direct FTE and 15 reimbursable FTE.

The enacted appropriation was \$90,215,000, which accounts for the authorized \$91,126,000 less the across the board rescission of \$911,000.

The budgeted amount maintains a program level consistent with the current level of effort necessary to support TTB's responsibility for revenue collection and enforcement of laws and regulations governing alcohol and tobacco commodities. The Bureau obligated and/or expended nearly all of its FY 2006 direct appropriations, roughly 99.8 percent.

In addition, the FY 2006 budget includes an estimate of \$1.7 million in offsetting collections related to the necessary expense of conducting the Puerto Rican enforcement operations. During FY 2006, TTB expended roughly \$1.6 million in reimbursable costs to support this operation.

FY 2006 Salaries and Expenses	
Appropriations (Public Law 109-115)	\$91,126,000
Less: Across the Board Rescission	(\$911,000)
Enacted Total Appropriations	\$90,215,000
Spending Authority from Offsetting Collections	\$1,700,000
Total Budget Authority	\$91,915,000

Also during FY 2006, an additional \$354,024 from FY 2005 unobligated available balances was used to relocate the Compliance Monitoring Laboratory in Walnut Creek, California. The relocation of this facility was completed during FY 2006.

FY 2006 Salaries and Expenses	
Reprogramming	\$354,024

Offsetting Collections and Reimbursable Accounts

For FY 2006, the actual offsetting collections recovered relating to Puerto Rico operations were approximately \$1.6 million. All costs associated with the functioning and support of the Puerto Rico office are paid from the "cover-over," which is offset from the roughly \$365 million in cover-over taxes collected in the United States on products originating

in Puerto Rico and the Virgin Islands. In Puerto Rico, TTB conducts annual 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 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/processors, wineries, wholesalers, importers, Manufacturer of Non-Beverage Products (MNBP) 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.

Explanation of Budget Activities by Mission

Salaries and Expenses: Collect the Revenue

The "Collect the Revenue" budget activity encompasses TTB's revenue strategy and goal to provide the most effective and efficient system for the collection of all revenue that is rightfully due; prevent or eliminate tax evasion and other criminal conduct; and provide high quality service while imposing the least regulatory burden.

TTB is charged with collecting the alcohol, tobacco, firearms, and ammunition excise taxes. The FY 2006 revenue tax collections reached nearly \$15 billion. Taxes collected by TTB are remitted to the Department of the

Treasury General Fund. The firearms and ammunition excise taxes are an exception, and are remitted to the Fish and Wildlife Restoration Fund.

This tax collection program includes projects designed to allow taxpayers to report and pay excise taxes electronically; enable industry access to the Pay.gov system; and consolidate the tax collection and reporting databases at the NRC into a single integrated state-of-the-art system that will promote greater efficiency and reduce costs.

Protect the Public

The "Protect the Public" budget activity encompasses TTB's strategy and goal to ensure industry compliance with laws and regulations by providing adequate information to the public as to the identity of alcohol beverages and preventing consumer deception.

Under this activity, TTB enforces compliance with Federal laws related to the production and distribution of alcohol products through education, inspection, investigation, and laboratory testing. TTB provides technical expertise, training, information, and research results to industry members, Government agencies, and others in order to better protect the public.

TTB relies on innovation, partnerships, and open communication to ensure the safety of the public.

Systems and Controls

Introduction

During FY 2006, TTB contracted with the Bureau of Public Debt's (BPD) Administrative Resource Center (ARC) to handle its administrative, human resources,

and financial functions. Furthermore, TTB separated its information technology function from ATF and outsourced this function to commercial firms.

Accounting Systems and Controls

The ARC accounting system known as Oracle Federal Financials is certified by the Joint Financial Management Improvement Program (JFMIP) and is in full compliance with Treasury reporting requirements.

In FY 2006 the Bureau fully migrated all of its financial business successfully to BPD's ARC system. 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 cost are in compliance with applicable laws; funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and revenues and expenditures are properly recorded and accounted for.

To 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.

Since stand-up, 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. During FY 2006, the financial services and systems used to record TTB's financial activities were outsourced to the Bureau of Public Debt (BPD). In FY 2006, the BPD Administrative Resource Center (ARC) provided an annual certification.

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 Office of Management and Budget 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 achieving 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 2006 that included a limited review of administrative and internal controls.

In summary, during FY 2006 TTB did not have any reportable conditions related to internal control or reportable instances of noncompliance 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, 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 Bulletin 01-09.

Management is also responsible for the fair representation of TTB's performance measures in accordance with OMB requirements. The quality of the Bureau's internal control structure rests with management, as does the responsibility for identification of and compliance with pertinent laws and regulations.

TTB in Relation to Treasury's Annual Financial Statements

The Department of Treasury did receive an unqualified audit opinion on its FY 2006 financial statements. The financial activities of the bureau are an integral part of the information reported on 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 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.

**DEPARTMENT OF THE TREASURY
ALCOHOL AND TOBACCO TAX AND TRADE BUREAU
BALANCE SHEETS (Unaudited)
As of September 30, 2006 and 2005**

	2006	2005
	<i>(In Thousands)</i>	
ASSETS		
Intragovernmental Assets:		
Fund Balance with Treasury	(Note 2) \$ 25,580	\$ 25,945
Accounts Receivable, Net	(Note 3) -	43
Due from the General Fund	(Note 5) 5,758	6,446
Advances	(Note 7) 1,553	572
Total Intragovernmental Assets	<u>32,891</u>	<u>33,006</u>
Accounts Receivable, Net	(Note 3) 116	296
Tax and Trade Receivables, Net	(Note 4) 1,942	2,714
Property, Plant and Equipment, Net	(Note 6) 13,002	13,381
Advances	(Note 7) -	6
TOTAL ASSETS	<u>\$ 47,951</u>	<u>\$ 49,403</u>
LIABILITIES		
Intragovernmental Liabilities:		
Accounts Payable	\$ 561	\$ 1,883
Accrued Funded Payroll Benefits	358	331
Accrued Unfunded FECA Liabilities	20	87
Due to the General Fund	1,365	2,210
Other Accrued Liabilities	(Note 9) 577	504
Total Intragovernmental Liabilities	<u>2,881</u>	<u>5,015</u>
Accounts Payable	3,765	3,017
Accrued Funded Payroll Benefits	1,730	1,527
Unfunded FECA Actuarial Liability	359	220
Accrued Refunds	(Note 5) 5,758	6,446
Accrued Unfunded Leave	3,616	3,299
Other Liabilities	(Note 9) 3,979	3,742
TOTAL LIABILITIES	<u>\$ 22,088</u>	<u>\$ 23,266</u>
NET POSITION		
Unexpended Appropriations	\$ 16,865	\$ 15,835
Cumulative Results of Operations	8,998	10,302
TOTAL NET POSITION	<u>25,863</u>	<u>26,137</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 47,951</u>	<u>\$ 49,403</u>

The accompanying notes are an integral part of these statements.

**DEPARTMENT OF THE TREASURY
ALCOHOL AND TOBACCO TAX AND TRADE BUREAU
STATEMENTS OF NET COST (Unaudited)
For the Years Ended September 30, 2006 and 2005**

	2006	2005
<i>(In Thousands)</i>		
PROTECT THE PUBLIC		
Program Costs		
Intragovernmental Gross Costs	\$ 12,819	\$ 16,105
Less: Intragovernmental Earned Revenue (Note 13)	<u>(21)</u>	<u>(43)</u>
Intragovernmental Net Costs	12,798	16,062
Gross Costs with the Public	34,526	29,176
Less: Earned Revenues from the Public (Note 13)	<u>(840)</u>	<u>(753)</u>
Net Costs with the Public	33,686	28,423
Total Net Cost	\$ 46,484	\$ 44,485
COLLECT THE REVENUE		
Program Costs		
Intragovernmental Gross Costs	\$ 13,182	\$ 15,424
Less: Intragovernmental Earned Revenue (Note 13)	<u>(22)</u>	<u>(41)</u>
Intragovernmental Net Costs	13,160	15,383
Gross Costs with the Public	35,502	27,942
Less: Earned Revenues from the Public (Note 13)	<u>(863)</u>	<u>(721)</u>
Net Costs with the Public	34,639	27,221
Total Net Cost	\$ 47,799	\$ 42,604
Costs Not Assigned to Programs	-	-
Less: Earned Revenues not Attributed to Programs	<u>-</u>	<u>-</u>
NET COST OF OPERATIONS	<u>\$ 94,283</u>	<u>\$ 87,089</u>

The accompanying notes are an integral part of these statements.

**DEPARTMENT OF THE TREASURY
ALCOHOL AND TOBACCO TAX TRADE BUREAU
STATEMENTS OF CHANGES IN NET POSITION (Unaudited)
For the Years Ended September 30, 2006 and 2005**

	2006	2005
	<i>(In Thousands)</i>	
OPERATIONS		
Beginning Balances	\$ 10,302	\$ 10,073
Prior Period Adjustments	-	-
Beginning Balances, as Adjusted	<u>10,302</u>	<u>10,073</u>
Budgetary Financing Sources		
Appropriations Used	89,185	83,213
Other Financing Sources		
Imputed Financing from Costs Absorbed by Others (Note 12)	3,794	4,105
Total Financing Sources	<u>92,979</u>	<u>87,318</u>
Net Cost of Operations (Note 13)	<u>(94,283)</u>	<u>(87,089)</u>
Net Position From Operations	\$ 8,998	\$ 10,302
UNEXPENDED APPROPRIATIONS		
Beginning Balances	\$ 15,835	\$ 16,712
Prior Period Adjustments	-	-
Beginning Balances, as Adjusted	<u>15,835</u>	<u>16,712</u>
Budgetary Financing Sources		
Appropriations Received	91,126	83,000
Other Adjustments -- Rescissions	(911)	(664)
Appropriations Used	<u>(89,185)</u>	<u>(83,213)</u>
Total Financing Sources	1,030	(877)
Net Position of Unexpended Appropriations	\$ 16,865	\$ 15,835
TOTAL NET POSITION	<u>\$ 25,863</u>	<u>\$ 26,137</u>

The accompanying notes are an integral part of these statements.

**DEPARTMENT OF THE TREASURY
ALCOHOL AND TOBACCO TAX AND TRADE BUREAU
STATEMENTS OF BUDGETARY RESOURCES (Unaudited)
For the Years Ended September 30, 2006 and 2005**

	2006	2005
<i>(In Thousands)</i>		
BUDGETARY RESOURCES		
	(Note 14)	
Unobligated Balance - Beginning of Period		
Beginning of Period	\$ 1,731	667
Recoveries of Prior Year Obligations	2,142	3,545
Budget Authority		
Appropriations Received	91,126	83,000
Spending Authority from Offsetting Collections		
Earned		
Collected	1,838	2,179
Change in Receivable from Federal Sources	(92)	(620)
Change in Unfilled Customer Orders		
Advance Received	-	-
Without Advance from Federal Sources	(78)	(38)
Subtotal	92,794	84,521
Permanently not Available	(911)	(664)
TOTAL BUDGETARY RESOURCES	95,756	88,069
 STATUS OF BUDGETARY RESOURCES		
	(Note 15)	
Obligations Incurred:		
Direct	\$ 91,964	\$ 84,810
Reimbursable	1,670	1,528
Subtotal	93,634	86,338
Unobligated Balance Apportioned	233	532
Unobligated Balance not Available	1,889	1,199
TOTAL STATUS OF BUDGETARY RESOURCES	\$ 95,756	\$ 88,069

The accompanying notes are an integral part of these statements.

**DEPARTMENT OF THE TREASURY
ALCOHOL AND TOBACCO TAX AND TRADE BUREAU
STATEMENTS OF BUDGETARY RESOURCES (Unaudited)
For the Years Ended September 30, 2006 and 2005**

	2006	2005
<i>(In Thousands)</i>		
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS:		
Unpaid obligations brought forward, Oct 1	\$ 20,996	\$ 24,762
Uncollected customer payments from Federal sources brought forward Oct 1	(524)	(1,182)
Total unpaid obligated balance brought forward, net	20,472	23,580
Obligations incurred, net	93,634	86,338
Gross Outlays	(92,655)	86,559
Recoveries of prior year unpaid obligations, actual	(2,142)	(3,545)
Change in uncollected customer payments from Federal Sources	170	658
Obligated balances, net end of period		
Unpaid obligations	19,834	20,996
Uncollected customer payments from Federal Sources	(355)	(524)
Total unpaid obligated balance, net, end of period	19,479	20,472
Net Outlays		
Gross outlays	92,655	86,559
Offsetting collections	(1,838)	(2,179)
Distributed offsetting receipts	(8)	(29)
NET OUTLAYS	<u>\$ 90,809</u>	<u>\$ 84,351</u>

The accompanying notes are an integral part of these statements.

**DEPARTMENT OF THE TREASURY
ALCOHOL AND TOBACCO TAX AND TRADE BUREAU
STATEMENTS OF FINANCING (Unaudited)
For the Years Ended September 30, 2006 and 2005**

	2006	2005
	<i>(In Thousands)</i>	
Resources Used to Finance Activities		
Budgetary Resources Obligated		
Obligations Incurred	\$ 93,634	\$ 86,338
Less: Spending Authority from Offsetting Collections and Recoveries	(3,810)	(5,066)
Obligations Net of Offsetting Collections and Recoveries	89,824	81,272
Less: Offsetting Receipts	(8)	(29)
Net Obligations	<u>89,816</u>	<u>81,243</u>
Other Resources		
Imputed Financing from Costs Absorbed by Others (Note 12)	3,794	4,105
Other (+/-)	-	-
Net Other Resources Used to Finance Activities	<u>3,794</u>	<u>4,105</u>
Total Resources Used to Finance Activities	<u>\$ 93,610</u>	<u>\$ 85,348</u>
Resources Used to Finance Items not Part of the Net Cost of Operations		
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered but not Yet Provided (+/-)	\$ 234	\$ (1,950)
Resources that Fund Expenses Recognized in Prior Periods	(64)	-
Other Budgetary Offsetting Collections and Receipts that do not Net Cost of Operations	(8)	(29)
Resources that Finance the Acquisition of Assets	1,076	11,763
Other Resources or Adjustments to Net Obligated Resources that do not Affect Net Cost of Operations (+/-)	-	(9,608)
Total Resources Used to Finance Items not Part of the Net Cost of Operations	<u>\$ 1,238</u>	<u>\$ 176</u>
Total Resources Used to Finance the Net Cost of Operations	<u>\$ 92,372</u>	<u>\$ 85,172</u>

The accompanying notes are an integral part of these statements.

**DEPARTMENT OF THE TREASURY
ALCOHOL AND TOBACCO TAX AND TRADE BUREAU
STATEMENTS OF FINANCING (Unaudited)
For the Years Ended September 30, 2006 and 2005**

	2006	2005
<i>(In Thousands)</i>		
Components of the Net Cost of Operations Requiring or Generating Resources in Future Periods		
Components Requiring or Generating Resources in Future Periods:		
Increase in Annual Leave Liability	\$ 318	\$ 397
Other (+/-)	139	246
	<u>\$ 457</u>	<u>\$ 643</u>
Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods		
	\$ 457	\$ 643
Components of the Net Cost of Operations not Requiring or Generating Resources		
Depreciation and Amortization	\$ 1,454	\$ 1,480
Revaluation of Assets or Liabilities (+/-)	-	61
Other	-	(267)
	<u>\$ 1,454</u>	<u>\$ 1,274</u>
Total Components of Net Cost of Operations that will not Require or Generate Resources		
	\$ 1,454	\$ 1,274
Total Components of Net Cost of Operations that will not Require or Generate Resources in the Current Period		
	<u>\$ 1,911</u>	<u>\$ 1,917</u>
NET COST OF OPERATIONS	<u>\$ 94,283</u>	<u>\$ 87,089</u>

The accompanying notes are an integral part of these statements.

**DEPARTMENT OF THE TREASURY
ALCOHOL AND TOBACCO TAX AND TRADE BUREAU
STATEMENTS OF CUSTODIAL ACTIVITY (Unaudited)
For the Years Ended September 30, 2006 and 2005**

	2006	2005
<i>(In Thousands)</i>		
SOURCES OF CUSTODIAL REVENUE		
Revenue Received		
Excise Taxes	\$ 14,785,317	\$ 14,718,034
Interest	254	1,237
Penalties and Fines	676	542
Other Custodial Revenue	8	29
Total Revenue Received	(Note 17) 14,786,255	14,719,842
Refunds	(Note 16) (355,855)	(337,736)
Net Revenue Received	14,430,400	14,382,106
Accrual Adjustment	(83)	(6,975)
Total Source of Custodial Revenue	\$ 14,430,317	\$ 14,375,131
DISPOSITION OF CUSTODIAL REVENUE		
Amounts Provided to Non-Federal Entities	(Note 16) 365,155	425,612
Amounts Provided to Fund the Federal Government	(Note 17) 14,065,245	13,956,494
Accrual Adjustment	(83)	(6,975)
Total Disposition of Custodial Revenue	\$ 14,430,317	\$ 14,375,131
NET CUSTODIAL REVENUE ACTIVITY	\$ -	\$ -

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 (IRC) and Federal Alcohol Administration Act in TTB within the Department of the Treasury. While the agency has a new name, the history of TTB's regulatory responsibility dates back to the creation of the Department of the Treasury and the first federal taxes being levied on distilled spirits in 1791. TTB collects alcohol, tobacco, firearms, and ammunition excise taxes, protects the consumer by ensuring that alcohol beverages are labeled, advertised, and marketed in accordance with the law, and facilitates trade in beverage and industrial alcohols.

B. Basis of Presentation

The financial statements were prepared to report the significant assets, liabilities, and net cost of operations, changes in net position, budgetary resource, and custodial activities of TTB. The financial statements have been prepared from the books and records of TTB in conformity with accounting principals generally accepted in the United States of America (GAAP), form and content for entity financial statements specified by the Office of Management and Budget (OMB) in OMB 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 primarily provides services to two entities, the Government of Puerto Rico and ATF. TTB maintains operations in Puerto Rico primarily to enforce laws and regulations on alcohol products. TTB also provides lab services and tax collection services to ATF.

(2) Non-exchange Revenue

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

(3) Financing Sources

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

TTB receives the majority of the funding needed to support the Bureau through congressional appropriations. The appropriations received are annual and multi-year funding that may be used, within statutory limits, for operating and capital expenditures.

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 for two years or more, is capitalized and depreciated. This threshold was raised during fiscal 2005 from its previous level of \$25,000 per unit. Other equipment is expensed when purchased. 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 follow: (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 the \$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.

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 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 liability not covered by budgetary resources. Also, the Government, acting in its sovereign capacity, can abrogate liabilities of TTB that arise from other than contracts.

Intergovernmental liabilities consists of amounts payable to the Treasury for collections of excise tax, fees receivable, 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

December 31, 1983, TTB also contributes the employers' matching share of Social Security. For the FERS basic benefit, employees contribute .8 percent of basic pay while TTB contributes 10.7 percent, for a total contribution rate of 11.5 percent in FY 2006. The cost of providing a FERS basic benefit, as provided by the office of Personnel Management (OPM), is equal to the amounts contributed by TTB and the employees, because the plan is fully funded.

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

TTB recognized the full cost of providing future pension and other retirement benefits (ORB) for current employees as required by SFFAS No. 5. Full cost includes pension and ORB contributions paid out of Bureau appropriations and costs financed by the OPM. Costs financed by the OPM are reported in the accompanying financial statements as an imputed financing revenue source. Reporting amounts such as plan assets, accumulated plan benefits, or unfunded liabilities, if any, is the responsibility of the OPM.

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.

Note 2. Fund Balance with Treasury

Fund Balance with Treasury (FBWT) as of September 30, 2006 and 2005 consisted of the following (in thousands):

	<u>2006</u>	<u>2005</u>
Fund Balances:		
Appropriated Funds	\$ 21,601	\$ 22,203
Other Funds	3,979	3,742
Total	<u>\$ 25,580</u>	<u>\$ 25,945</u>
Status of Fund Balances:		
Unobligated Balance - Available	\$ 233	\$ 532
Unobligated Balance - Unavailable	1,889	1,199
Obligated Balance not yet Disbursed	19,479	20,472
Non-Budgetary FBWT	3,979	3,742
Total Status of Fund Balances	<u>\$ 25,580</u>	<u>\$ 25,945</u>

The non-budgetary fund balance primarily represents cash payments made to the Bureau by tax payers, 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 tax payers to settle their tax debt at less than the assessed amount.

Note 3. Accounts Receivable, Net

Accounts Receivable as of September 30, 2006 and 2005 consisted of the following (in thousands):

	<u>2006</u>	<u>2005</u>
Intragovernmental Accounts Receivable:		
Due from GSA	-	43
Total Intragovernmental Accounts Receivable	<u>\$ -</u>	<u>\$ 43</u>
Due from the Government of Puerto Rico	\$ 113	\$ 205
Due from Commercial Vendors	-	79
Due from Employees	3	12
Total Accounts Receivable Due from the Public	<u>\$ 116</u>	<u>\$ 296</u>

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

Note 4. Tax and Trade Receivables, Net

Tax and Trade Receivables as of September 30, 2006 and 2005 consisted of the following (in thousands):

	<u>2006</u>	<u>2005</u>
Taxes Receivable	\$ 9,056	\$ 10,414
Interest Receivable	1,949	2,021
Penalties, Fines and Administrative Fees Receivable	2,641	2,941
Total Tax and Trade Receivables	<u>13,646</u>	<u>15,376</u>
Allowance for Doubtful Accounts	<u>(11,704)</u>	<u>(12,662)</u>
Total Tax and Trade Receivables, Net	<u>\$ 1,942</u>	<u>\$ 2,714</u>

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

Note 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 represents 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, 2006 and 2005 consisted of the following (in thousands):

<u>2006</u>	Service <u>Life (Years)</u>	Acquisition <u>Value</u>	Accumulated <u>Depreciation</u>	Net <u>Book Value</u>
ADP Software	3	\$ 3,424	\$ 1,533	\$ 1,891
Equipment	2 - 10	4,596	3,335	1,261
Leasehold Improvements	2 - 5	799	54	745
Buildings	40	9,689	584	9,105
Total PP&E		<u>\$ 18,508</u>	<u>\$ 5,506</u>	<u>\$ 13,002</u>
<u>2005</u>	Service <u>Life (Years)</u>	Acquisition <u>Value</u>	Accumulated <u>Depreciation</u>	Net <u>Book Value</u>
ADP Software	3	\$ 2,990	\$ 935	\$ 2,055
Equipment	2 - 10	4,424	2,774	1,650
Leasehold Improvements	2 - 5	329	10	319
Buildings	40	9,689	332	9,357
Total PP&E		<u>\$ 17,432</u>	<u>\$ 4,051</u>	<u>\$ 13,381</u>

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

The balance in the Buildings account represents TTB's 13.2% equity interest in the National Laboratory facility in Ammendale, Md., which TTB co-owns with ATF.

Note 7. Advances

Intragovernmental advances consist of the balances paid to Treasury's working capital fund which have not yet been earned and billed by the fund.

Note 8. Non-entity Assets

The Bureau has total assets valued at \$47.9 million, of which \$11.7 million are non-entity assets. Below is a detailed breakout of the non-entity assets.

Non-entity assets as of September 30, 2006 and 2005 consisted of the following (in thousands):

	<u>2006</u>	<u>2005</u>
Intragovernmental Non-entity Assets:		
Fund Balance with Treasury	\$ 3,979	\$ 3,742
Due from the General Fund	5,758	6,446
Total Intragovernmental Non-entity Assets	<u>9,737</u>	<u>10,188</u>
Tax and Trade Receivables, Net	1,942	2,714
Total Non-Entity Assets	<u>11,679</u>	<u>12,902</u>
Total Entity Assets	<u>36,272</u>	<u>36,501</u>
Total Assets	<u>\$ 47,951</u>	<u>\$ 49,403</u>

Note 9. Other Liabilities

Other Liabilities as of September 30, 2006 and 2005 consisted of the following (in thousands):

	<u>2006</u>	<u>2005</u>
Other Accrued Liabilities	\$ 577	\$ 504
Other Intragovernmental Liabilities	\$ 577	\$ 504
Cash Bond Liabilities	\$ 3,704	\$ 3,711
Offers-in-Compromise not yet Accepted	275	31
Total Other Liabilities with the Public	<u>\$ 3,979</u>	<u>\$ 3,742</u>
Total Other Liabilities	<u>\$ 4,556</u>	<u>\$ 4,246</u>

All Other Liabilities are considered current liabilities.

Note 10. Liabilities Not Covered by Budgetary Resources

For fiscal years 2006 and 2005, the Bureau's total liabilities were \$22.1 million and \$23.3 million, of which \$3.9 million and \$3.6 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, 2006 and 2005 consisted of the following (in thousands):

	<u>2006</u>	<u>2005</u>
Accrued Unfunded FECA Liability	\$ 20	\$ 87
Total Intragovernmental Liabilities not Covered by Budgetary Resources	20	87
FECA Actuarial Liability	359	220
Accrued Leave	<u>3,616</u>	<u>3,299</u>
Total Liabilities with the Public not Covered by Budgetary Resources	<u>3,975</u>	<u>3,519</u>
Total Liabilities not Covered By Budgetary Resources	3,995	3,606
Total Liabilities Covered by Budgetary Resources	<u>18,093</u>	<u>19,660</u>
Total Liabilities	<u>\$ 22,088</u>	<u>\$ 23,266</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 Consolidated Statement of Financing. The amounts reported on the Balance Sheet are period ending balances, while the amounts reported on the Statement of Financing are activity for the period.

Generally, liabilities not covered by budgetary resources require future funding and can 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.

Note 12. Imputed Financing

Imputed Financing as of September 30, 2006 and 2005 consisted of the following (in thousands):

	<u>2006</u>	<u>2005</u>
Health Insurance	\$ 2,374	\$ 2,175
Life Insurance	7	6
Pension	1,413	1,400
Services from ATF	-	406
Services from GSA	-	118
Total Imputed Financing	<u>\$ 3,794</u>	<u>\$ 4,105</u>

Imputed financing recognizes actual cost of future benefits to be paid by other Federal entities. These benefits include Federal Employees Health and Benefits Program (FEHBP), Federal Employees Group life Insurance Program (FEGLI), and pensions. Imputed financing also recognizes cost to be paid by the Judgment Fund. The Fund was established and funded by Congress under 31 U.S.C. 1304 to pay in whole or part court judgments and settlement agreements negotiated by Treasury on behalf of agencies, as well as certain types of administrative awards. The Judgment Fund did not pay out any awards on TTB's behalf during fiscal years 2006 or 2005.

SFFAS No. 5, "Accounting for Liabilities of the Federal Government," requires that employing agencies recognize the cost of pensions and other retirement benefits during their employees' active years of service. TTB does not report CSRS assets, FERS assets, accumulated plan benefits, or unfunded liabilities, if any, applicable to retirement plans because the accounting for and reporting of such amounts is the responsibility of OPM. Based on cost factors provided by OPM, estimated future pension benefits for TTB employees, to be paid by OPM, totaled \$1.4 million. Similarly, OPM rather than TTB, reports liabilities for future payments to retired employees who participate in the FEHBP and FEGLI programs. The FY 2006 FEHBP cost factor applied to a weighted average number of employees enrolled in the FEHBP is \$5,229 which produced a \$ 2.4 million imputed cost. The FY 2006 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 2006.

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, 2006 and 2005 consisted of the following (in thousands):

Fiscal Year Ended September 30, 2006

Activity	Budget Function Classification	Code	Gross Costs	Earned Revenue	Net Costs
Consolidated	Central Fiscal Operations	803	\$ 96,029	\$(1,746)	\$ 94,283
Intragovernmental	Central Fiscal Operations	803	<u>26,001</u>	<u>(43)</u>	<u>25,958</u>
With the Public	Central Fiscal Operations	803	<u>\$ 70,028</u>	<u>\$(1,703)</u>	<u>\$ 68,325</u>

Fiscal Year Ended September 30, 2005

Activity	Budget Function Classification	Code	Gross Costs	Earned Revenue	Net Costs
Consolidated	Central Fiscal Operations	803	\$ 88,647	\$(1,558)	\$ 87,089
Intragovernmental	Central Fiscal Operations	803	<u>31,529</u>	<u>(84)</u>	<u>31,445</u>
With the Public	Central Fiscal Operations	803	<u>\$ 57,118</u>	<u>\$(1,474)</u>	<u>\$ 55,644</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 Budget of the United States discloses estimated budget authority in excess of \$360 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 2006 and 2005, P.L. 108-447 and P.L. 108-199, respectively (in thousands):

	<u>2006</u>	<u>2005</u>
Appropriations Received	\$ 91,126	\$ 83,000
Rescissions	(911)	(664)
Appropriations Received, Net	<u>90,215</u>	<u>82,336</u>
Spending Authority From Offsetting Collections	<u>1,668</u>	<u>1,521</u>
Total Budgetary Resources	<u>\$ 91,883</u>	<u>\$ 83,857</u>

Note 15. Apportionment Categories of Obligations Incurred

Fiscal Year	Apportionment Category	Direct Obligations	Reimbursable Obligations	Total Obligations Incurred
2006	Category B	<u>\$ 91,964</u>	<u>\$ 1,670</u>	<u>\$ 93,634</u>
2005	Category B	<u>\$ 84,810</u>	<u>\$ 1,528</u>	<u>\$ 86,338</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 2006, TTB collected more than \$14.8 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 2006, TTB issued more than \$721 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 producers/processors, wineries, wholesalers, importers, Manufacturers of Non-Beverage Products (MNBP) claimants, and Specially Denatured Alcohol permit applicants. All costs associated with the functioning and supporting of the Puerto Rico office,

\$1.8 million in fiscal 2006, 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 Non-Beverage Products (MNBP) may be eligible to claim a refund of tax paid on distilled spirits used in their products. In the case of distilled spirits, on which the tax has been paid or determined, a drawback shall be allowed on each proof gallon at the rate of \$1 less than the rate at which the distilled spirits tax had been paid or determined. The refund is due upon the claimant providing evidence that the distilled spirits on which the tax has been paid or determined, were unfit for beverage purposes and were used in the manufacture or production of medicines, medicinal preparations, food products, flavors, flavoring extracts, or perfume.

Refunds, Drawbacks and Cover-over Payments as of September 30, 2006 and 2005 consisted of the following (in thousands):

	<u>2006</u>	<u>2005</u>
Alcohol and Tobacco Excise Tax Refunds	\$ 17,524	\$ 18,504
Drawbacks on MNBP Claims	337,632	317,132
Interest and Other Payments	<u>699</u>	<u>2,100</u>
Refunds	355,855	337,736
Cover-over Payments - Puerto Rico	358,664	419,602
Cover-over Payments - Virgin Islands	<u>6,491</u>	<u>6,010</u>
Amounts Provided to Non-federal Entities	365,155	425,612
Total Refunds, Drawbacks and Coverover Payments	<u>\$721,010</u>	<u>\$763,348</u>

As of September 30, 2006, the amount of custodial liability due to the general fund was \$1,365.

Note 17. Non-exchange Revenues and Refunds

Collection and Disposition of Custodial Revenue as of September 30, 2006 and 2005 consisted of the following (in thousands):

Revenue Type	Tax Year				FY 2006
	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>Pre-2004</u>	<u>Total</u>
Excise Taxes	\$ 10,877,805	\$ 3,903,046	\$ 847	\$ 3,619	\$ 14,785,317
Fines, Penalties, Interest and Other	938				938
Total Revenue Received	10,878,743	3,903,046	847	3,619	14,786,255
Less: Amounts Collected for Non-federal Entities	(365,155)				(365,155)
Subtotal	\$ 10,513,588	\$ 3,903,046	\$ 847	\$ 3,619	\$ 14,421,100
<u>Refund Type</u>					
Excise Taxes	\$ 183,290	\$ 168,320	\$ 839	\$ 3,022	\$ 355,471
Fines, Penalties, Interest and Other	384				384
Total Refunds	\$ 183,674	\$ 168,320	\$ 839	\$ 3,022	\$ 355,855
Amounts Provided to Fund the Federal Government	\$ 10,329,914	\$ 3,734,726	\$ 8	\$ 597	\$ 14,065,245

Revenue Type	Tax Year				FY 2005
	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>Pre-2003</u>	<u>Total</u>
Excise Taxes	\$ 10,695,195	\$ 4,014,466	\$ 2,949	\$ 5,424	\$ 14,718,034
Fines, Penalties, Interest and Other	1,808	-	-	-	1,808
Total Revenue Received	10,697,003	4,014,466	2,949	5,424	14,719,842
Less: Amounts Collected for Non-federal Entities	(425,612)	-	-	-	(425,612)
Subtotal	\$ 10,271,391	\$ 4,014,466	\$ 2,949	\$ 5,424	\$ 14,294,230
<u>Refund Type</u>					
Excise Taxes	\$ 172,259	\$ 154,411	\$ 1,545	\$ 7,919	\$ 336,134
Fines, Penalties, Interest and Other	1,602	-	-	-	1,602
Total Refunds	\$ 173,861	\$ 154,411	\$ 1,545	\$ 7,919	\$ 337,736
Amounts Provided to Fund the Federal Government	\$ 10,097,530	\$ 3,860,055	\$ 1,404	\$ (2,495)	\$ 13,956,494

Required Supplemental Information

Budgetary Information

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

Intragovernmental Assets

Required Supplemental Information Consolidated Intragovernmental Assets As of September 30, 2006 Unaudited				
Dollars in Thousands				
Trading Partner	Agency Code	Fund Balance W/Treasury	Accounts Receivable	Advances and Other Assets
Department of the Treasury	20	\$ 25,580	\$ -	\$ 1,553
General Fund	99	-	5,758	-
Total		<u>\$ 25,580</u>	<u>\$ 5,758</u>	<u>\$ 1,553</u>

Required Supplemental Information Consolidated Intragovernmental Assets As of September 30, 2005 Unaudited				
Dollars in Thousands				
Trading Partner	Agency Code	Fund Balance W/Treasury	Accounts Receivable	Advances and Other Assets
Department of the Treasury	20	\$ 25,945	\$ -	\$ 572
General Services Administration	47	-	43	-
General Fund	99	-	6,446	-
Total		<u>\$ 25,945</u>	<u>\$ 6,489</u>	<u>\$ 572</u>

Intragovernmental Liabilities

Required Supplemental Information Consolidated Intragovernmental Liabilities As of September 30, 2006 Unaudited				
Dollars in Thousands				
Trading Partner	Agency Code	Accounts Payable	Accrued FECA	Custodial and Other Liabilities
Government Printing Office	04	\$ 197	\$ -	\$ -
Department of the Interior	14	-	-	577
Department of Labor	16	-	20	-
Department of the Treasury	20	4	-	-
Office of Personnel Management	24	-	-	264
General Services Administration	47	306	-	-
Treasury General Fund	99	54	-	1,459
Total		<u>\$ 561</u>	<u>\$ 20</u>	<u>\$ 2,300</u>

Required Supplemental Information Consolidated Intragovernmental Liabilities As of September 30, 2005 Unaudited				
Dollars in Thousands				
Trading Partner	Agency Code	Accounts Payable	Accrued FECA	Custodial and Other Liabilities
Government Printing Office	04	\$ 79	\$ -	\$ -
Department of the Interior	14	-	-	504
Department of Justice	15	1,012	-	-
Department of Labor	16	-	87	-
Office of Personnel Management	24	37	-	245
General Services Administration	47	628	-	-
Treasury General Fund	99	127	-	2,296
Total		<u>\$ 1,883</u>	<u>\$ 87</u>	<u>\$ 3,045</u>

Intragovernmental Earned Revenue

Required Supplemental Information			
Consolidated Intragovernmental Earned Revenue			
For the Fiscal Years Ended September 30, 2006 and 2005			
Unaudited			
Dollars in Thousands		FY 2006	FY 2005
Trading Partner	Agency Code		
Department of Justice	15	\$ 43	\$ 84
Total		\$ 43	\$ 84
Gross Cost to Generate Earned Revenue:			
Budget Function Classification	Code	FY 2006	FY 2005
Central Fiscal Operations	803	\$ 43	\$ 84
Total		\$ 43	\$ 84

Intragovernmental Imputed Financing and Non-exchange Activity

Required Supplemental Information							
Consolidated Intragovernmental Imputed Financing and Non-exchange Activity							
For the Fiscal Years Ended September 30, 2006 and 2005							
Unaudited							
Dollars in Thousands			FY 2006				
Trading Partner	Agency Code	Imputed Financing Sources	Nonexchange Activity				
			Unexpended Appropriations		Cumulative Results of Operations		Non-exchange Revenue and Other Financing Sources
			Transfers-In	Transfers-Out	Transfers-In	Transfers-Out	
Department of the Interior	14	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 249,650
Office of Personnel Management	24	3,794	-	-	-	-	-
General Fund	99	-	-	-	-	-	13,813,028
Total		\$ 3,794	\$ -	\$ -	\$ -	\$ -	\$ 14,062,678

Dollars in Thousands			FY 2005				
Trading Partner	Agency Code	Imputed Financing Sources	Nonexchange Activity				
			Unexpended Appropriations		Cumulative Results of Operations		Non-exchange Revenue and Other Financing Sources
			Transfers-In	Transfers-Out	Transfers-In	Transfers-Out	
Department of the Interior	14	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 220,607
Department of Justice	15	406	-	-	-	-	-
Office of Personnel Management	24	3,581	-	-	-	-	-
General Services Administration	47	118	-	-	-	-	-
General Fund	99	-	-	-	-	-	13,368,674
Total		\$ 4,105	\$ -	\$ -	\$ -	\$ -	\$ 13,589,281

Intragovernmental Gross Cost

Required Supplemental Information			
Consolidated Intragovernmental Gross Cost			
For the Fiscal Years Ended September 30, 2006 and 2005			
Unaudited			
Dollars in Thousands		FY 2006	FY 2005
Trading Partner	Agency Code		
Library of Congress	03	\$ 32	\$ 33
Government Printing Office	04	317	594
Department of Justice	15	825	2,538
Department of Labor	16	(53)	64
Department of the Treasury	20	4,561	4,556
Department of the Army	21	-	5
Office of Personnel Management	24	10,914	10,140
General Services Administration	47	6,531	10,855
Department of Homeland Security	70	319	286
Department of Health and Human Services	75	57	50
National Archives Records Administration	88	30	26
Department of Defense	97	189	86
General Fund	99	2,279	2,296
Total		<u>\$26,001</u>	<u>\$31,529</u>

During FY 2006, TTB incurred costs with other Federal agencies totaling \$26.0 million. The majority of those costs were associated with the five entities detailed below.

- Department of Justice – ATF provided the Bureau \$825 thousand in administrative services, 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 \$4.6 million.
- Office of Personnel Management - \$10.9 million in costs were incurred for employee benefits.
- General Services Administration - \$6.5 million paid to GSA was for rent and IT services.
- General Fund - \$2.3 for employee benefits and lockbox fees.

Other Supplemental Information

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
1997	6,594,847	5,879,744	149,090	106,691	35	19	12,730,426
1998	6,524,894	5,623,987	164,792	106,236	2	156	12,420,067
1999	6,646,879	5,189,724	187,978	104,740	-	229	12,129,550
2000	6,777,592	6,758,060	197,840	102,803	261,824	351	14,098,470
2001	6,674,425	7,119,726	175,959	103,610	528	168	14,074,416
2002	6,889,401	7,763,652	205,027	101,893	115,609	159	15,075,741
2003	6,910,631	7,380,807	193,414	103,781	1,628	-	14,590,261
2004	6,995,366	7,433,852	216,006	100,562	-	359	14,746,145
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
Average	\$ 6,827,105	\$ 6,790,922	\$ 196,550	\$ 84,340	\$ 38,027	\$ 173	\$ 13,937,117

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 2005 that suspended the collection of most of the taxes.

TTB collects FAET taxes 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 2006, TTB incurred more than \$2.7 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.

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
1997	204,458	2,483	6,879	242,066	2,501	458,387
1998	229,323	2,317	7,667	243,066	1,947	484,320
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
Average	\$ 310,774	\$ 4,437	\$ 11,487	\$ 296,410	\$ 1,687	\$ 624,795

A&T - Alcohol and Tobacco

MNBP - Manufacturer of Non-Beverage Products

Note - On January 1, 2006, the Puerto Rico cover-over rate was reduced from \$13.25 per proof gallon to \$10.50 per proof gallon, resulting in a substantial decrease in the Puerto Rico cover-over payments.

Part IV

Appendices

Principal Officers of TTB

Administrator.....	John Manfreda
Deputy Administrator	Vicky McDowell
Assistant Administrator Headquarters Operations....	William Foster
Assistant Administrator Management/CFO.....	Cheri Mitchell
Assistant Administrator Field Operations	Mary Ryan
Industry Liaison.....	Susan Stewart
Chief of Staff	Theresa Glasscock
Chief Counsel	Robert Tobiassen

For additional information, contact:

Alcohol and Tobacco Tax and Trade Bureau

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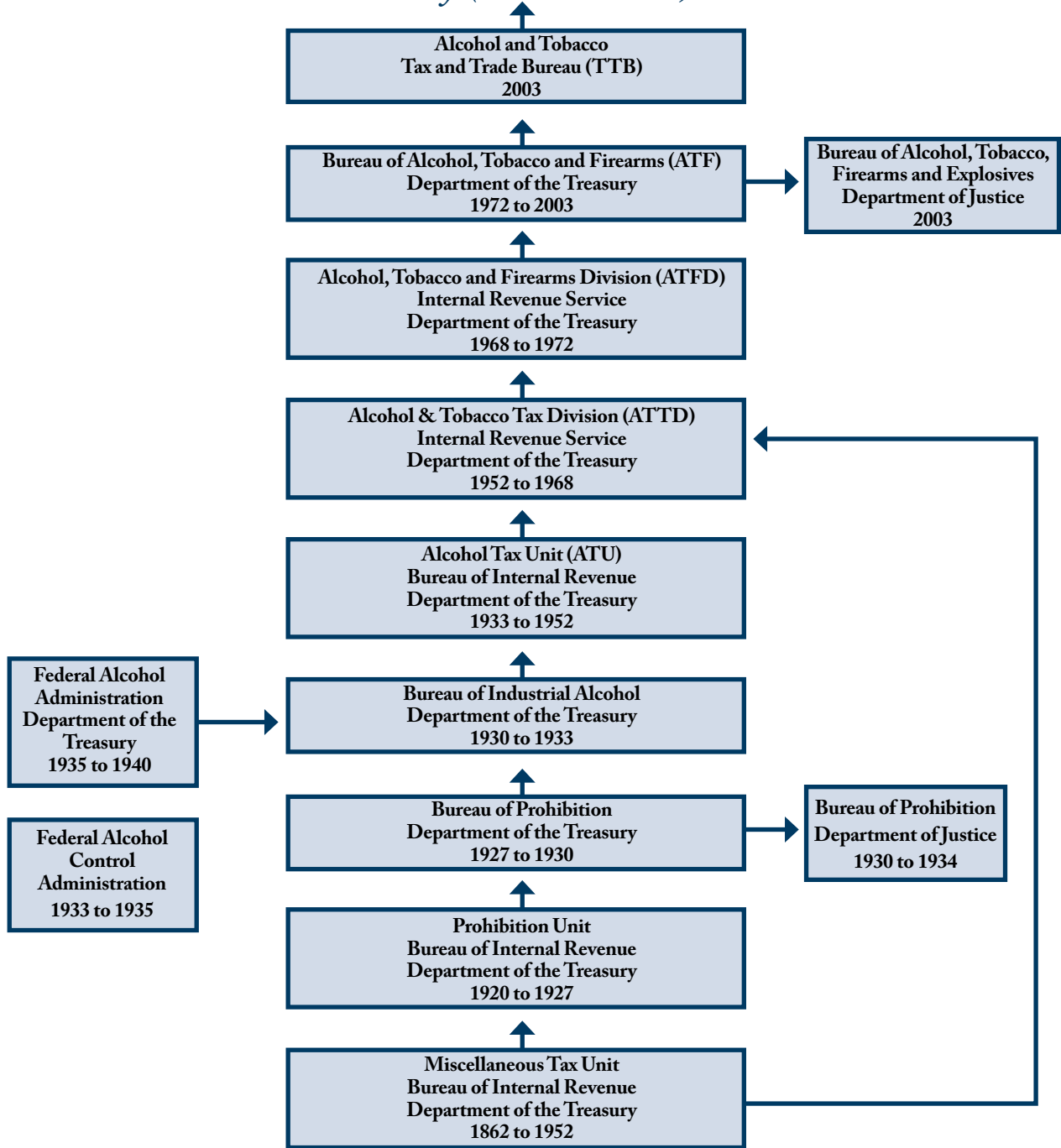
<http://www.ttb.gov>

<p>RELATIONSHIP BETWEEN THE TREASURY AND TTB STRATEGIC PLANS</p>		
<p>Treasury Objectives</p>	<p>TTB Strategic Goal</p>	<p>TTB Objectives</p>
<p>Promote stable U.S. and world economies</p> <p>Increase citizens' economic security.</p>	<p>Protect the Public:</p> <p>Prevent consumer deception; ensure that regulated alcohol and tobacco products comply with Federal commodity, safety, and distribution requirements; and provide high quality customer service.</p>	<p>Ensure that regulated products meet commodity and safety requirements established by Federal law, provide information to the public, and reduce the burden on industry.</p> <p>Prevent consumer deception, ensure compliance with Federal distribution requirements, and provide information to the public.</p>
<p>Manage the U.S. Government's finances effectively</p> <p>Collect Federal tax revenue when due, through a fair and uniform application of the law.</p>	<p>Collect the Revenue:</p> <p>Provide the most effective and efficient system for the collection of all revenue that is rightfully due; eliminate or prevent tax evasion and other criminal conduct; and provide high quality service while imposing the least regulatory burden.</p>	<p>Improve service to the taxpayer and reduce the burden of compliance with Federal law.</p> <p>Collect all the revenue that is rightfully due.</p> <p>Prevent tax evasion and identify other criminal conduct in the regulated industries. ----</p>
<p>Ensure professionalism, excellence, integrity, and accountability in the management and conduct of the Department of the Treasury</p> <p>Manage Treasury resources effectively, to accomplish the mission and provide quality customer service.</p>	<p>Refine Management Practices:</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>Implement a performance-based management system for meeting TTB's mission.</p> <p>Employ information technology to support program management and improve TTB mission performance through the deployment of information systems that are secure, compatible, and cost effective.</p> <p>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>Manage human capital to support TTB programs and the achievement of Bureau goals by building and sustaining a work environment conducive to performance excellence, and personal and organizational development.</p>

Department of the Treasury

Alcohol and Tobacco Tax and Trade Bureau (TTB)

History (1789 – 2005)



Appendices

The United States Department of the Treasury and the first Federal taxes on distilled spirits were established in 1791.