

ALCOHOL AND TOBACCO TAX AND TRADE BUREAU



*A proud past... A focused future*

2005  
**Performance &  
Accountability  
Report**



*www.ttb.gov*

# Performance and Accountability Report

*Fiscal Year 2005*



*U.S. Department of the Treasury*

**Alcohol and Tobacco Tax  
and Trade Bureau**

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## *Introduction*

The Alcohol and Tobacco Trade and Tax Bureau (TTB) submits its 2005 Performance and Accountability Report. This document is not compulsory under the Government Performance Results Act (GPRA), but the Bureau elected to present this report in an effort to communicate relevant performance and financial information on its fiscal year 2005 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 results from the Program Assessment Rating Tool (PART) review of our goals and the status of our performance measures.

The document is separated into four parts:

- Part I – Management Discussion and Analysis. This section provides messages from the TTB Administrator and Chief Financial Officer, along with highlights of program and financial operations, a summary of our program performance, and the challenges the Bureau faces.
- Part II – Program Performance Results. In this section, the report provides a recap of each performance measure, the results of the 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. Also included is some supplemental information, such as a history of Federal excise tax collections for the past decade. Although these statements are not independently audited, the information should be viewed as a reliable and accurate portrayal of the Bureau's financial operations.
- Part IV – Appendices. This section includes a history of the Bureau, along with strategic planning information that demonstrates linkages with the overall Department of the Treasury's mission and goals.

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

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## *Message from the Administrator*



The Alcohol and Tobacco Tax and Trade Bureau (TTB) marks a new chapter in the Department of the Treasury's long and illustrious history. Legislation passed in January 2003 established a new Treasury bureau with a mission as old as Treasury itself. The history of the Bureau's regulatory responsibilities dates to the creation of the Department of the Treasury and the first Federal taxes levied on distilled spirits in 1791.

In fiscal year (FY) 2005, the Bureau focused on its core missions to "Collect the Revenue" and "Protect the Public." The focal point of these missions rests on the two uniquely regulated consumer products, alcohol and tobacco, which generate significant tax revenue. In FY 2005, the Bureau collected \$14.7 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.

Over the past fiscal year, TTB has placed continued emphasis on 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. Those electronic initiatives provide a more effective and efficient way for industry members to pay their taxes and comply with regulatory requirements. We offer the alcohol and tobacco industries the electronic means to file tax returns, make payments, and submit operational reports. 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.

TTB is a highly efficient agency, dedicating minimal resources to administrative requirements. A recent program evaluation review by the Office of Management and Budget rated the Bureau's "Collect the Revenue" activity as effective, the highest rating possible. In addition, the Bureau collects \$367 for every \$1 it spends, an extraordinarily high productivity ratio. We recently completed a business process reengineering study of our operations at the National Revenue Center, and during FY 2005 we launched a similar study of the "Protect the Public" mission. A final report is due in the summer of 2006. These studies are designed to improve work flows and maximize our Bureau resources.

TTB has also focused our efforts on the creation of an efficient and effective field audit and investigation program, which 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.

Recent legislation amended the Internal Revenue Code of 1986 (IRC) in two ways that affect TTB and its taxpayers. First, new provisions suspended the Special Occupational Tax (SOT) on most alcohol taxpayers, effective July 1, 2005, and then repealed the SOT for all alcohol taxpayers effective July 1, 2008. However, the SOT relating to tobacco permittees (manufacturers, importers, and export warehouses) remained intact. Second, the law amended the tax payment and return provisions of IRC section 5061 to allow taxpayers to submit their tax returns and tax payments on a quarterly basis rather than a semi-monthly basis, provided that their annual liability does not exceed \$50,000. 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, I am pleased to report that TTB provides reasonable assurance that the objectives under 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 Federal Manager's Financial Integrity Act (FMFIA) for FY 2005. 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,

TTB's rulemaking activities provide information and guidance to taxpayers, industry members, and the public, and help to promote voluntary compliance within the regulated industry. During FY 2005, TTB resolved a controversial regulatory and excise tax issue by setting a Federal standard for flavored malt beverages. This rulemaking identifies the amount of alcohol from flavors that may contribute to the alcohol content in malt beverages or beer without changing the identity of the product to a distilled spirit, thus ensuring that consumers are adequately informed about the identity of flavored malt beverages and protecting the revenue. TTB will continue to address other controversial issues in the future, including allergen labeling, ingredient listing, and serving facts panels on alcohol beverage labels.

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.

**Signed by John Manfreda**

John J. Manfreda  
Administrator

## *Message from the Chief Financial Officer*



I am pleased to present the Alcohol and Tobacco Tax and Trade Bureau's (TTB) fiscal year 2005 Performance and Accountability Report, which provides an accounting of our operations and organization performance. TTB collects alcohol, tobacco, firearms, and ammunition excise taxes. Our agency also protects the public by preventing consumer deception and fraud, and ensures that alcohol beverage products comply with applicable Federal commodity and safety standards.

During FY 2005, TTB implemented an ambitious agenda that focused on improving the performance of our programs and included a number of fundamental organizational changes. To provide the most efficient and cost effective delivery of administrative and financial services, TTB outsourced its financial and administrative support services to the Treasury Franchise Fund located in Parkersburg, West Virginia. Our outsourcing relationship with the Treasury Franchise Fund continues to provide a successful vehicle for our excellent, low-cost financial and administrative activities, and we plan to continue to foster this long term partnership in the future.

Also, at the end of the second quarter of FY 2005, the Bureau reached a significant milestone when TTB fully transitioned its core business applications, Internet and Intranet sites, and all network operations from the Bureau of Alcohol, Tobacco, Firearms and Explosives (ATF). By outsourcing with the private sector, TTB gained its technological independence and we are now able to redirect the Bureau's business focus to the core business systems and other electronic Government applications that are at the heart of the Bureau's mission.

In FY 2005, TTB expanded its e-filing program to allow all 7,300 Federal excise taxpayers to file and pay taxes electronically through the Pay.gov program. Presently, more than



1,100 industry members have enrolled in this program, with about 98 percent of our industry members paying their taxes electronically. TTB's "Collect the Revenue" budget activity received an effective rating on its Program Rating Assessment Tool (PART) evaluation from the Office of Management and Budget. This rating strongly indicates that the Bureau has an effective and efficient program in place for collecting Federal excise taxes.

TTB collected \$14.7 billion in Federal excise tax revenues in FY 2005, and processed more than 400,000 tax returns and operational reports from industry members. The Bureau also processed refund claims in the amount of \$317 million to Manufacturers of Non-Beverage Products (MNBP), and paid approximately \$420 million to the government of Puerto Rico and \$6 million to the Virgin Islands under the "cover over" imposed on rum and distilled spirits. TTB also handled nearly \$150 million in accounts receivables, and completed program activities which support the Collect the Revenue and Protect the Public mission—all on an operating budget of \$82 million.

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.

**Signed by  
Cheri D. Mitchell**

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

## *Vision, Mission, and Values*

### Vision

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

### Mission

To collect taxes owed, to ensure that alcohol beverages are properly produced, labeled, advertised, and marketed, and to assist industry members to voluntarily comply with Federal law and regulations .

### TTB Values

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

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

## ***PART I***

# Management Discussion and Analysis

## *The Organizational Structure*

### **New Beginning**

The Homeland Security Act of 2002 reorganized the Federal Government for the first time in decades and established the Alcohol and Tobacco Tax and Trade Bureau (TTB). This Act gave us a unique opportunity to focus on alcohol and tobacco, and firearms and ammunition excise tax and related issues. TTB became a Bureau on January 24, 2003, when the Act reorganized large parts of the Federal Government, including the Treasury Department's law enforcement functions.

TTB has two primary missions:

- Collecting the Revenue and
- Protecting the Public.

TTB met all nine of its performance measures in achieving its mission for FY 2005. Its six Collect the Revenue goals have been enhanced as a result of a significant business process reengineering study, as a result of a Program Assessment Rating Tool study TTB met its Protect the Public goals by preparing for a major business process reengineering study for Protect the Public (e.g., similar to the one that was performed for the Collect the Revenue activities) as well as having reorganized its National Revenue Center by its two primary goals

### **Responsibilities of TTB**

To support its missions 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.

### Organizational Structure and Key Functions

TTB has 559 full-time-equivalent (FTE) positions at our headquarters, laboratory facilities, and field offices. Geographically, TTB headquarters is located in Washington, D.C., and field offices have been established in several major U.S. cities, as well as Puerto Rico.

The Washington, D.C. headquarters office is comprised of roughly 150 staff, while the National Revenue Center (NRC) in Cincinnati, Ohio is the base of operations for roughly 180 staff members. The rest of our staff is based in field offices and at TTB's two laboratory facilities.

The field structure is comprised of 17 field offices located throughout the United States, with a single executive heading the major operations that include the NRC, 10 field offices for the Tax Audit Division (TAD), and 7 field offices for our Trade Investigations Division (TID). A typical field office accommodates roughly seven TTB employees.

The components that comprise the organization are briefly described below.

#### Office of the Administrator

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.

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

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

EEO/DA provides leadership, direction, and guidance in carrying out TTB's Equal Employment Opportunity, diversity, and civil rights responsibilities.

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

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

#### Office of Chief Counsel (OCC)

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

**Office of the Chief Finance Officer/Management (CFO/MGT)**

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

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

The OCIO is responsible for providing effective and secure IT solutions that allow TTB to carry out its mission without imposing undue burden on the industries that the Bureau regulates.

**Office of Headquarters Operations (HQ Ops)**

HQ Ops supports TTB in its efforts to protect the American public and the revenue generated from its regulated industries.

**Scientific Services Division (SSD)**

SSD, which consists of the Bureau's three laboratories, provides scientific support, technical guidance, and analyses of alcohol and tobacco products.

The laboratory locations are:

- Beverage Alcohol Laboratory and Nonbeverage Products Laboratory—Ammendale, Maryland
- Compliance Monitoring Laboratory—Walnut Creek, California

**Office of Field Operations (FO)**

The mission of FO is to ensure 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 public. In addition, FO develops and implements programs and conducts tax audits and investigations of industry members.

**Trade Investigations Division (TID)**

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

- California District Office, Sacramento, California
- Mountain District Office, St. Paul, Minnesota
- Midwest District Office, Cleveland, Ohio
- Northeast District Office, Philadelphia, Pennsylvania
- Puerto Rico District Office, Hato Rey, Puerto Rico
- Northwest District Office, Vancouver, Washington
- Southeast District Office, Tampa, Florida

Subordinate offices in each District are called “alternative workplaces,” which are located within the residences of TTB field investigators and auditors.

**Tax Audit Division (TAD)**

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

- Greensboro, North Carolina
- Philadelphia, Pennsylvania

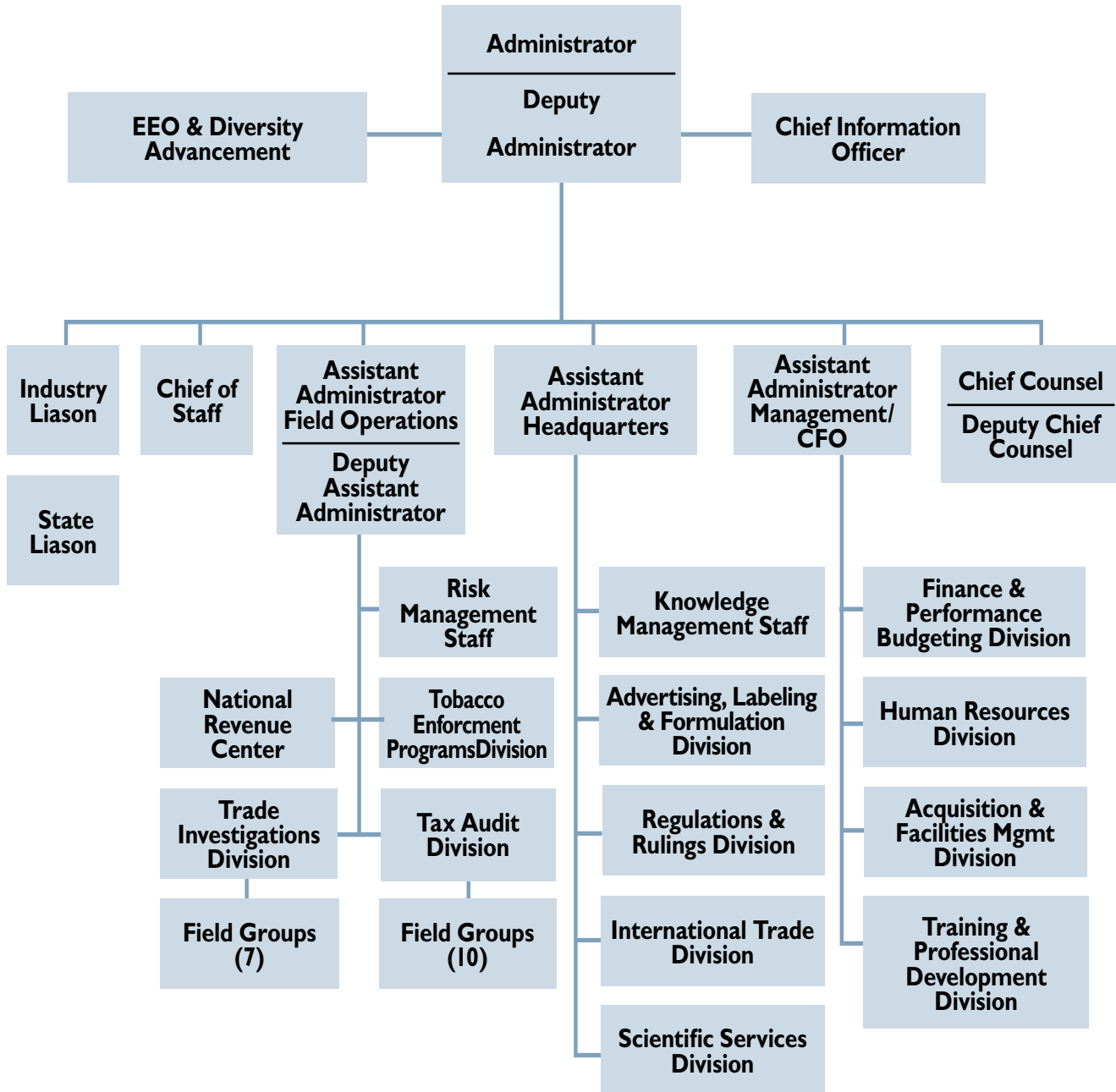
- Manchester, New Hampshire
- Tampa, Florida
- Cincinnati, Ohio—East
- Cincinnati, Ohio—West
- San Francisco, California
- Los Angeles, California
- Seattle, Washington
- Dallas, Texas

#### **National Revenue Center (NRC)**

The NRC processes and examines excise tax returns, operational reports, claims, Special Occupational Tax returns, and conducts appropriate collections activities for tax programs administered by TTB under Chapters 32 and 51 of the IRC.

The NRC also 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.

## TTB Organization Chart



## Strategic Plan and Performance Goals

This Performance and Accountability Report includes performance and financial data for FY 2005. TTB's achievements during the Bureau's second full year of operation are the result of sound business planning and execution.

TTB's Strategic Business Plan focuses on three strategic goals:

- Protecting the Public,
- Collecting the Revenue, and
- Refining Management Practices.

With the Government Performance and Results Act (GPRA), Congress established a management tool that holds the Federal Government accountable to our fellow citizens for the tax dollars appropriated to and expended by each agency. GPRA further requires agencies to justify the funding expended by their end results.

TTB has embraced GPRA with the development of a comprehensive Strategic Business Plan, annual performance plans, and Performance and Accountability Reports.

### *Collect the Revenue*

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

As the third largest tax collection agency in the Federal Government, one of TTB's goals is to improve service to the taxpayer, which includes reducing the burden of complying with Federal laws. In FY 2005, TTB collected \$14.7 billion in excise taxes from the alcohol, tobacco, firearms, and ammunition industries.

About 98 percent of this figure came from the alcohol and tobacco industries. Alcohol represents about 48 percent of the annual tax receipts, and revenue collections from the tobacco industry represents about 50 percent. Firearms, ammunition, and Special Occupational Tax collections account for the remaining two percent. About 200 taxpayers, or 4 percent, account for approximately 98 percent of annual tax collections.

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

- Use electronic Government (e-Government).
- Reduce the taxpayer paperwork burden associated with the collection of the revenue by creating alternative electronic filing methods.
- Increase online filing and payment of tax returns, business activity reports, claims, applications, Certificates of Label Approvals (COLAs), and other forms.
- Increase program effectiveness through partnerships with industry, States, and other Federal agencies.
- Continue to automate business applications at the National Revenue Center.



- Improve collections and efficiency of service through information sharing efforts, such as seminars, publications, and industry meetings.
- Ensure consistent tax administration.

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

- Account accurately for the revenue assessed and collected.
- Increase review of taxpayer returns and collect delinquencies to ensure voluntary compliance.
- Ensure correct payment of taxes through audit of “at-risk” taxpayers. In FY 2005, audit findings included such issues as underpayment of taxes, recordkeeping violations, and internal control irregularities. As a result of TTB audits, the Bureau collected an additional \$4.3 million in taxes, and identified \$10.2 million in tax penalties and interest potentially due.
- Implement and refine ways to identify potential tax jeopardy patterns.
- Develop alternative methods of promoting voluntary tax compliance by partnering with industry, States, and other Federal agencies.

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

- Investigate and assist with the prosecution of business entities suspected of being involved in

tax evasion schemes, including the diversion and smuggling of taxable commodities.

- Forge partnerships with and provide training to Federal, State, local, tribal, and foreign governments to enforce tax laws.

*Protect the Public*

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

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

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



# Management's Discussion and Analysis

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

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

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

**Inform the public.**

- Publicize information on TTB policies and regulations, product safety, and theft prevention using the Internet, trade publications, seminars, and industry meetings.
- Work in partnership with others to inform, advise, and educate the public.
- Inform and guide the regulated industries on the Federal laws and regulations and their compliance responsibilities.

## *Refine Management Practices*

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

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

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

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

- Expand electronic Government initiatives and implement e-clearance and e-signature policies and procedures.
- Accredite all information technology

systems for security compliance and ensure that all security patches are applied.

- Improve business cases for all IT systems.
- Implement and improve enterprise architecture.
- Implement a capital planning and investment control process.

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

- Ensure a clear link between TTB's vision, mission, strategic plan, and program and budget decisions, while tying resources to results.
- Meet the financial compliance standards and improve the budget formulation and execution process.
- Ensure prompt payment to providers of goods and services.
- Expand competitive sources of TTB services, where possible.

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

- Administer human capital programs so that employees and supervisors express overall satisfaction with their jobs and the personnel services that they receive.
- Provide a safe and healthy work environment and ensure that facilities accommodate mission and program requirements.
- Make use of job flexibilities such as alternative work schedules and telecommuting, in order to benefit employees and reduce the cost of facilities.
- Provide employees with the tools, training, skills, and work environment to excel at job performance in an electronic Government environment.

## Performance Summary

In the previous section, we show that the TTB Strategic Business Plan drove many of our initiatives and accomplishments. In the following performance summary, we list some of the Bureau's FY 2005 highlights.

### *Business Process Reengineering*

In June 2004, Kelly, Anderson and Associates, Inc., completed a five-month independent evaluation of the National Revenue Center (NRC). The evaluation focused on assessing the effectiveness and efficiency of the core business processes of the NRC. These processes include claims, applications, tax returns

and reports, Special Occupational Tax, and firearms and ammunition excise tax.

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

In September 2005, Sim-G Technologies and Kelly, Anderson and Associates began an independent evaluation of TTB's business processes. This will include a comprehensive study of all areas of the Protect the Public mission with an intensive review of six of those program areas.

### *PMA/PART/Performance Measures*

- Program Assessment Rating Tool (PART) — During FY 2005, TTB underwent a PART review by the Office of Management and Budget to assess areas of strengths and weakness in the Collect the Revenue program. TTB received an overall rating of effective—the highest possible rating. The review was intensive, and showed a few areas where TTB will need to spend more time and resources. TTB will continue to work with industry to provide the most effective and efficient systems for the collection of all revenue that is rightfully due while imposing the least regulatory burden to taxpayers.

- Performance Measures — In FY 2005, TTB tracked nine performance measures. The organization compared actual performance to our performance goal target levels in each of these areas. TTB met all nine targets. We continue to review and track a number of internal performance measures. Also, after the independent review by the contractor and subcontractor, TTB will reevaluate its Protect the Public measures to assure the public that we are providing the best possible outcome for taxpayer dollars.
- President's Management Agenda (PMA) — In FY 2005, TTB made tremendous strides in advancing the progress of the PMA initiatives, laying the foundation necessary to support a successful PMA program.

The PMA contains five initiatives to improve management and deliver results to our customers. The five initiatives are strategic management of human capital, competitive sourcing, improved financial performance, expanded electronic Government, and budget and performance integration.

Ratings are given for each initiative and are designated as red (unsatisfactory), yellow (mixed results), or green (successful). Based on its self-assessment, TTB achieved in FY 2005 a green rating in all five categories: Human Capital, Competitive Sourcing, Financial Performance, e-Government, and Budget-Performance Integration.

## Performance Accomplishments

Expanding on the previous section, this section addresses some of the key program and financial components related to TTB's performance in FY 2005.

### *Strategic Goal: Collect the Revenue*

- Collected \$14.7 billion in revenue generated from Federal excise taxes imposed on alcohol, tobacco, firearms, and ammunition.
  - The National Revenue Center (NRC) processed more than 400,000 tax returns and operational reports during FY 2005.
  - Field Operations implemented an integrated audit automation system that tracks results of audits and field investigations and ensures that operations function in an economical and efficient manner.
  - Completed 110 audits of alcohol and tobacco companies to ensure that the industry members paid the Federal excise taxes rightfully due under the law.
  - The NRC is prepared for any excise taxpayer who has a tax liability of less than \$50,000 annually to begin filing and paying their tax liability on a quarterly, rather than semi-monthly, basis. This option becomes effective on January 1, 2006. There are approximately 2,450 excise taxpayers eligible to use this quarterly return period.
  - The NRC reorganized and restructured along process and commodity lines.
- There are now two primary divisions within the NRC: Application Services and Tax Services. This allows each division to be more focused on their customer service and reflects two of TTB's strategic goals—Collect the Revenue and Protect the Public.
- TTB underwent a PART review by the Office of Management and Budget and was awarded the highest rating available for its Collect the Revenue program.
  - As part of the ongoing, multi-year information technology initiative under the Integrated Revenue Information System (IRIS) project, TTB is preparing to integrate the Federal excise tax database. This will be the third major database incorporated into IRIS.
  - Expanded the Pay.gov program to allow all excise taxpayers to file and pay electronically.
  - The NRC developed a number of query reports to automatically reconcile tax returns to the various monthly operational reports. This will show underpayment and non-payment of excise taxes immediately instead of through the manual reconciliation of the reports.
  - During FY 2005, TTB's laboratories accomplished the following in support of the Collect the Revenue mission:

- Analyzed 1,901 beverage alcohol samples for product integrity, pre-market analysis, Alcohol Sampling Program, and compliance (covers both revenue collection and consumer protection);
- Processed 10,111 non-beverage alcohol flavor formulas, riders, and samples;
- Processed 2,534 specially denatured alcohol formulas and samples;
- Processed 109 tobacco tax classification submissions; and
- Processed 110 Form 5010 Tax Credit submissions.

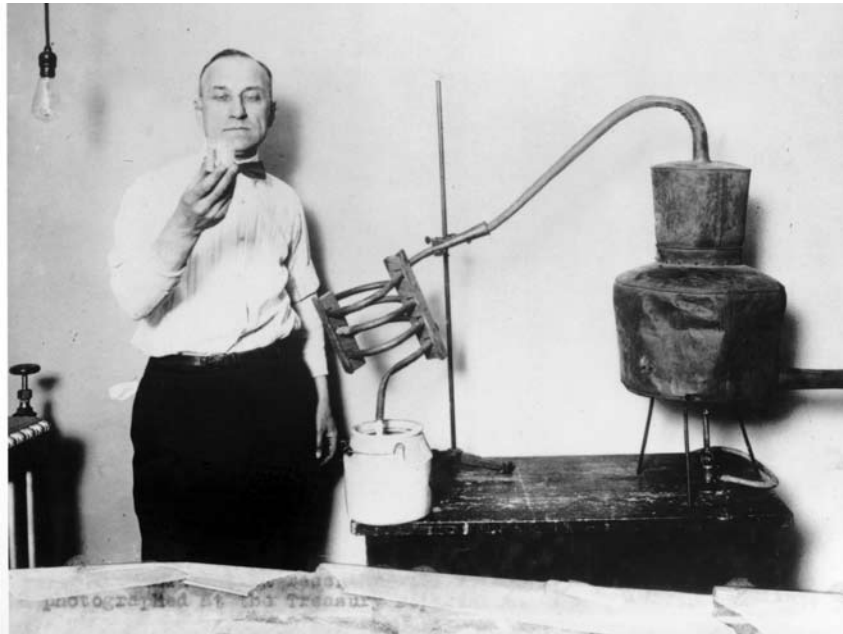
Federal Alcohol Administration Act, which requires importers and bottlers of beverage alcohol to obtain COLAs for most alcohol beverages prior to their introduction into interstate commerce. TTB reviews each label to ensure the document complies with Federal laws and regulations aimed at protecting the consumer.

- Investigators conducted 874 investigations, including 356 permit and notice applications, 329 product integrity, 16 trade practice/alcohol advertising, and 132 revenue investigations.
- The National Revenue Center (NRC) processed applications and 4,468 original permit applications and 18,779 amended permit applications to establish new operations in alcohol and tobacco-related industries in FY 2005. Of the original applications received, 3,375 were approved. In total for 2005, TTB processed 3,677 applications. TTB exceeded its goals by completing 81 percent of permit transactions within 60 days.

*Strategic Goal: Protect the Public*

- The Bureau processed more than 110,000 Certificates of Label Approval (COLAs) under the





- In FY 2005, TTB initiated more than 479 product integrity investigations, 113 of which were on importers, and conducted more than 400 field application investigations for prospective distilleries, wineries, breweries, and importers in the U.S. and Puerto Rico.
- The NRC processed nearly 11,000 amended permit applications filed and manages the files on 36,000 active permit holders.

The laboratories at TTB provided scientific support on classification of tobacco products for tax purposes, approval of non-beverage and specially denatured alcohol formulas, and analysis of pre-import and marketed alcohol beverage products for class and type designation. The labs also determined product safety, monitored market products, and provided technical guidance in formulating regulations. Some of the highlights are:

Analyzed 1,848 alcohol beverage samples for methanol, and 39 products were found to contain methanol in excess of the current Food and Drug Administration regulatory limit.

Analyzed 940 wines for sulfur dioxide content and label waiver request. Eight wines, submitted for label waiver request, were found to contain sulfur dioxide and required label declaration.

- Analyzed 115 beverage alcohol products for limited and prohibited ingredients, such as thujone, coumarin, prussic acid, heavy metals, vanillin, and ethyl vanillin.
- The International Trade Division (ITD) played a key role in facilitating the completion of Phase I of the United States/European Community (US/EC) Trade in Wine Agreement. Since 1983, the EC had been renewing short-term derogations from their regulations for U.S. wine made using practices not recognized by



the EC. The temporary nature of these derogations created continuous uncertainty for US wine exporters. This agreement helps stabilize the environment so that wine trade with the EC can exceed current levels of \$487 million.

- ITD assisted in the completion of the U.S./Mexico Trade in Tequila Agreement. This agreement will ensure that exports of tequila from Mexico to the United States, valued at approximately \$400 million per year, continue without interruption.
- ITD coordinated key technical briefings for foreign officials from South Africa, Taiwan, Japan, Italy, and Bulgaria, and the Chinese Ministry of Health.
- The Regulations and Rulings Division (RRD) prepared and published 60 documents in the Federal Register. These included 17 final rulemaking documents that involved changes to the regulations administered by TTB,
- 25 notices of proposed rulemaking (NPRMs), and 13 information collection notices under the Paperwork Reduction Act of 1995.
- RRD implemented streamlined procedures for processing American viticultural area (AVA) petitions. We standardized language and more effectively explain the potential for conflict between a proposed viticultural area name and a name already used as a brand name on an approved wine label. In FY 2005, we also decreased the time from petition to final processing to 18 months or less and substantially reduced our backlog.
- The Bureau worked closely with two primary organizations of State alcohol beverage regulators, the National Conference of State Liquor Administrators and the National Association of Beverage Control Administrators, to promote cooperative efforts and programs for alcohol beverage regulation and taxation.



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

*Strategic Goal: Refine Management Practices*

- The Bureau continued to refine its Continuity of Operations Plan (COOP), which provides guidance to ensure the continuity of TTB's essential services through a wide range of potential emergencies from COOP relocation sites.
- Continued to implement a number of quality of life programs such as the Flexiplace program. The Bureau has 59 investigators participating in this program full time.
- Completed the separation of the information technology (IT) infrastructure from the Bureau of Alcohol, Tobacco, Firearms and Explosives (ATF); however the integration will continue for several years with strategic investments in hardware and planning.
- TTB negotiated a Memorandum of Understanding (MOU) with ATF to provide IT support for FY 2005. The MOU provided for payment of services on a quarterly basis, allowing us to pay ATF for only the services that we used.
- At the end of the first quarter of FY 2005, we transitioned office automation systems (computer login, e-mail, and file storage) from ATF to TTB. This was a significant milestone as it allowed us to operate under Treasury IT security guidelines. We had previously operated under both Treasury and Department of Justice policies, creating conflicts and service interruptions.
- TTB assumed all customer support operations from ATF at the end of the first quarter of FY 2005.
- TTB custom business applications, the TTB Internet site, the TTB Intranet site, as well as all network operations, were transitioned from ATF by the end of the second quarter of FY 2005.
- The IT group also replaced obsolete TTB desktop and laptop computers by the end of calendar year 2005.
- While setting up the Bureau, a conscious effort was made to minimize overhead costs

and outsource administrative support services in support of the President's Management Agenda (PMA). TTB developed a strategy to transition all of its human resource, financial, procurement, property, and training services to the Administrative Resource Center (ARC), which is operated by the Bureau of Public Debt (BPD). Also, TTB transitioned the information technology infrastructure and support services to the private sector.

## Financial Highlights

### *Federal Excise Tax Collections*

As an agent of the Federal Government, and as authorized by Title 26 of the U.S. Code (U.S.C.), TTB collects excise taxes from alcohol, tobacco, firearms, and ammunition industries. In addition, we collect Special Occupational Tax (SOT) from certain alcohol and tobacco businesses. During FY 2005, TTB collected more than \$14.7 billion in taxes, interest, and other revenues.

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

#### **FY 2005 Excise Tax Collections:**

Alcohol.....	\$7,074,076,000
Tobacco.....	\$7,409,608,000
FAET.....	\$225,818,000
SOT.....	\$10,190,000
Other .....	\$150,000
TOTAL.....	\$14,719,842,000

**Refunds and Other Payments**

During FY 2005, TTB issued more than \$763,348,000 in refunds, cover-over payments, and drawback payments.

Alcohol and Tobacco Excise Tax Refund . . . . .	\$18,504,000
Cover-over Payments — Puerto Rico . . . . .	\$419,602,000
Cover-over Payments — Virgin Islands . . . . .	\$6,010,000
Drawbacks on MNBP Claims . . . . .	\$317,132,000
Interest and Other Payments . . . . .	\$2,100,000
<b>Total . . . . .</b>	<b>\$763,348,000</b>

*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 2005, TTB processed \$420 million in cover-over payments to Puerto Rico and \$6 million to the Virgin Islands.

*Drawbacks*

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

During FY 2005, drawback payments totaled \$317,132,000. 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 2005 Bureau Budget:*

**Salaries and Expenses Account**

The FY 2005 budget for salaries and expenses is \$82,336,000. The full time equivalent (FTE) staffing level is 544 for direct appropriations and 15 for reimbursable, for a total staffing level of 559. In addition, reimbursable funding of \$1.7 million was available as offsetting collections in a reimbursable account. The Bureau obligated 99.7 percent of its FY 2005 budget.

**Offsetting Collections and Reimbursable Accounts**

The Bureau was allocated \$1.7 million for FY 2005 to cover the operating costs of the Puerto Rico office. The actual reported costs associated with the functioning and supporting of the Puerto

Rico office was \$1.5 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 roughly \$426 million in cover-over taxes collected in the United States on products originating in Puerto Rico and the Virgin Islands.

In Puerto Rico, TTB conducts annual audit 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.

On November 11, 2005, the independent auditor's report was issued expressing an unqualified opinion on the Treasury Department's financial statements. This means that the financial information presented by the Department of the Treasury, which includes 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.

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

During FY 2005, the administrative, financial, and information technology support services were provided to TTB by the Department of Justice (DOJ), Bureau of Alcohol Tobacco, Firearms and Explosives (ATF). The aim was to transition all of these support services under the umbrella of the Department of the Treasury.

TTB developed a strategy to migrate all of its administrative requirements to the Department of the Treasury, Bureau of

Public Debt (BPD), and its information technology support to commercial businesses.

At the beginning of October 1, 2004, TTB formally separated our financial information and records from the systems currently in place at ATF. BPD's Administrative Resource Center (ARC) now provides TTB with cross servicing support of financial operations. During 2004, TTB developed a multi-phase conversion strategy that would essentially allow it to be operational on October 1, 2004, with BPD under a full servicing agreement while TTB continued to work to allow legacy data to be migrated under BPD into a new reporting repository.

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

TTB's transition from ATF's IT infrastructure was initiated in FY 2004 and was completed during the first half of FY 2005.

TTB made a series of investments in IT during FY 2004 that made substantial contributions to our successful migration. In FY 2005, Congress provided an additional \$1,058,000 in resources to be used to facilitate this transfer. The President's FY 2006 budget allocated \$4,404,000 to our base resources to cover all recurring costs necessary to ensure that our IT infrastructure is operating TTB's core business applications.

TTB has a modernization blueprint that focuses IT investments on important Bureau functions and defines how those functions will be measurably improved. All TTB systems and projects have business cases that have been approved by Treasury's Office of the Chief

Information Officer, and 100 percent of IT systems have certification and accreditation.

The Bureau will aggressively pursue all electronic Government (e-Gov) opportunities that will reduce taxpayers' burden for tax filing and increase all regulatory compliance.

## ***Management Discussion and Analysis***

### *TTB's Challenges*

This section is reserved to focus on the agency's most serious management and performance challenges, as identified by the Inspector General's Office. For FY 2005, TTB received no reported serious performance challenges or related audit issues.

## Part II

# Performance Goals, Objectives, and Results

### *Performance Measures*

Total Performance Measures	9
Performance Targets Met	9
Not Met	0
Not Available	0
Baseline	0

TTB tracked nine measures in FY 2005 and met all of them. TTB continues to assess its performance for each goal, and new performance measures will be forthcoming.

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

Below is a comparison of actual performance-to-performance goal target levels for the nine measures that TTB tracked in FY 2005.

## 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. The Revenue Accounting Unit retrieves the wire transfer information from Cashlink. The detail records are then input into the Electronic Wire Transfer table using the Federal Excise Tax System.

FY 2002 Actual	FY 2003 Actual	FY 2004 Actual	FY 2005		FY 2006 Proposed
			FY Plan	FY Actual	
-98%	-98%	97.398%	98%	98%	98%

**FY 2005 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 2002 Actual	FY 2003 Actual	FY 2004 Actual	FY 2005		FY 2006 Proposed
			FY Plan	FY Actual	
--	80%	81.2%	84%	86.3%	86%

**FY 2005 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 (FET) system.

FY 2002 Actual	FY 2003 Actual	FY 2004 Actual	FY 2005		FY 2006 Proposed
			FY Plan	FY Actual	
–	57%	63%	70%	70%	74%

**FY 2005 Performance:** Target Met

**Performance Measure:** Unit cost to process an excise tax return.

**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).

FY 2002 Actual	FY 2003 Actual	FY 2004 Actual	FY 2005		FY 2006 Proposed
			FY Plan	FY Actual	
–	\$71	\$71	\$71	\$71	\$71

**FY 2005 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:** Both of these components represent information that is subject to annual audits and routine reconciliation.

FY 2002 Actual	FY 2003 Actual	FY 2004 Actual	FY 2005		FY 2006 Proposed
			FY Plan	FY Actual	
0.31%	0.39%	0.27%	0.40%	0.37%	0.34%

**FY 2005 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.

FY 2002 Actual	FY 2003 Actual	FY 2004 Actual	FY 2005		FY 2006 Proposed
			FY Plan	FY Actual	
–	–	37%	65%	82%	90%

**FY 2005 Performance:** Target Met

## Activity: Protect the Public

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

**Definition:** Represents the turnaround time for Certificate of Label Approval (COLA) processing for both electronic and paper transactions.

**Type of Measure:** Efficiency

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

FY 2002 Actual	FY 2003 Actual	FY 2004 Actual	FY 2005		FY 2006 Proposed
			FY Plan	FY Actual	
–	57%	23%	30%	50%	35%

**FY 2005 Performance:** Target Met

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

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

**Type of Measure:** Efficiency

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

FY 2002 Actual	FY 2003 Actual	FY 2004 Actual	FY 2005		FY 2006 Proposed
			FY Plan	FY Actual	
–	3%	10%	16%	25%	27%

**FY 2005 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:** Integrated Revenue Information System (IRIS) at the NRC.

FY 2002 Actual	FY 2003 Actual	FY 2004 Actual	FY 2005		FY 2006 Proposed
			FY Plan	FY Actual	
–	–	–	67%	81%	80%

**FY 2005 Performance:** Target Met

**Explanation of Challenge:** This performance measure was set at an aggressive target level. There will be a business process reengineering project this year to work toward meeting the target activity performance.

## 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 2005 based on the Bureau’s self-assessment:

### PMA Scorecard Based on TTB Self-Assessment

<i>Initiative</i>	<i>Status FY 2005</i>
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 2005, TTB issued its first five-year Human Capital Strategic Plan, which outlines the Bureau's human capital goals, standards for success, and major strategic initiatives. TTB will review the plan annually for progress achieved on initiatives, and strategic priorities will be updated as necessary.

This past year, TTB implemented a Federal Employment Opportunity Recruitment Plan for FY 2005-2008 to promote the employment and advancement of minorities and women within the Bureau. Additionally, we put in place a Disabled Veteran's Affirmative Action Plan for FY 2005-2008 for the hiring and advancement of disabled veterans within TTB.

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 all 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.

### ● *Improved Financial Performance—Successful*

TTB achieved "green" status in this initiative because no unresolved internal control material weaknesses or reportable conditions were found and all audits have been unqualified. The Bureau has successfully used financial management to meet financial deadlines and avoid Anti-Deficiency Act violations.

During FY 2005, the financial records from the Bureau of Alcohol, Tobacco and Firearms (ATF) platform were migrated to BPD, which is the Bureau's service provider for financial records. Performance benchmarks and measures have been established to monitor contract performance.

### ● *Expanded Electronic Government—Successful*

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

All TTB systems and projects have approved business cases, and 100 percent of IT systems have certification and accreditation. In FY 2005, TTB migrated to an independent infrastructure platform, eliminating dependency on ATF for these services. TTB also established an independent IT security remediation process.

TTB's online system for filing Certificates of Label Approval (COLAs), which we

launched in FY 2003, continues to receive a very favorable response from industry members due to its ease of use and the expedited turnaround times compared to paper submissions. In FY 2005, 1,286 industry members registered to use COLAs Online, increasing the total number of registrants to 3,859.

### ● *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.

## 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.

### *How TTB Uses PART Evaluations*

Like 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.

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

*PART Evaluation Criteria*

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

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

The Office of Management and Budget summarizes PART scores as a 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**

- Refine performance measures to more accurately reflect the goals and achievements of the program. 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 Planned or Underway Taken**

- TTB continues to refine its performance measures. We hired a contractor to review the Protect the Public processes and measures. TTB is in the process of completing the baselines for its annual performance measures in FY 2006.
- TTB currently uses the BPD 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.
- TTB is in the process of completing a major business reengineering study on its Protect the Public mission. The work that has been performed on this study will impact how TTB performs cost-benefit studies in the future, with noticeable affects in the coming fiscal year.



## Part III

### *Budget Highlights by Fund Account*

#### Salaries and Expenses

The FY 2005 TTB budget of \$84,036,000 consists of direct appropriations of \$82,336,000 and offsetting collections of \$1.7 million in reimbursable funding. The budget sets the full time equivalent (FTE) staffing level at 544 direct FTE positions and 15 reimbursable FTE positions.

The enacted appropriation was \$82,336,000, which accounts for the authorized \$83 million less the across the board rescission of \$664,000.

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 2005 direct appropriations, roughly 99.4 percent.

In addition, the FY 2005 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 2005, TTB expended roughly \$1.5 million in costs to this operation.

<b>FY 2005 Salaries and Expenses</b>	
Consolidated Appropriations (H.R. 4818)	\$83,000,000
Less: Across the Board Rescission	\$(664,000)
Enacted Total Appropriations	\$82,336,000
Spending Authority from Offsetting Collections	\$1,700,000
Total Budget Authority	\$84,036,000

Also during FY 2005, an additional \$697,384 from FY 2004 unobligated balances was used to relocate the Compliance Monitoring Laboratory in Walnut Creek, California. The relocation of this facility will be completed during FY 2006.

<b>FY 2005 Salaries and Expenses</b>	
Reprogramming	\$697,394

### *Offsetting Collections and Reimbursable Accounts*

For FY 2005, the actual offsetting collections recovered relating to Puerto Rico operations were approximately \$1.5 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 \$426 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.

This 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

Beginning FY 2005, 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 (Version 11.5.9) is certified by the Joint Financial Management Improvement Program (JFMIP) and is in full compliance with Treasury reporting requirements.

The Bureau has fully migrated all of its financial business successfully to BPD's ARC system and is highly satisfied with the progress we have made to date in meeting Treasury's reporting requirements and in maintaining accurate and reliable financial information on TTB's financial activities.

### 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.

While ATF serviced TTB, the Bureau adopted the policies in effect at ATF. TTB is now in the process of developing its own Bureau-specific policies.

Management accountability systems must assure basic compliance with the objectives of the FMFIA and the management control standards set by the Government Accountability Office. During FY 2005, the financial services and systems used to record TTB's financial activities were outsourced to the Bureau of Public Debt (BPD). In FY 2005, 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.

Increased emphasis on management controls has had a positive impact on programs achieving the intended results. This process also ensures that the utilization of resources is consistent with mission priorities and that program and resources are being used without waste, fraud, or mismanagement. TTB has conducted office reviews during FY 2005 that included a limited review of administrative and internal controls.

In summary, during FY 2005 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. 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 is one of 23 Federal agencies 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 Department of the Treasury.

On November 11, 2005, the independent auditor's report was issued expressing an unqualified opinion on the Treasury Department's financial statements. This means that the financial information presented by the 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. Fiscal year 2004 was TTB's first full year of operations.

**DEPARTMENT OF THE TREASURY**  
**ALCOHOL AND TOBACCO TAX AND TRADE BUREAU**  
**BALANCE SHEETS (Unaudited)**  
**As of September 30, 2005 and 2004**

	<b>2005</b>	<b>2004</b>
	<i>(In Thousands)</i>	
<b>ASSETS</b>		
<b>Intragovernmental Assets:</b>		
Fund Balance with Treasury	(Note 2) \$ 25,945	\$ 28,028
Accounts Receivable, Net	(Note 3) 43	483
Due from the General Fund	(Note 5) 6,446	6,686
Prepayments	(Note 7) 572	394
<b>Total Intragovernmental Assets</b>	<u>33,006</u>	<u>35,591</u>
Accounts Receivable, Net	(Note 3) 296	354
Tax and Trade Receivables, Net	(Note 4) 2,714	9,928
Property, Plant and Equipment, Net	(Note 6) 13,381	12,767
Prepayments	(Note 7) 6	6
<b>TOTAL ASSETS</b>	<u><u>\$ 49,403</u></u>	<u><u>\$ 58,646</u></u>
<b>LIABILITIES</b>		
<b>Intragovernmental Liabilities:</b>		
Accounts Payable	\$ 1,883	\$ 4,521
Accrued Funded Payroll Benefits	331	-
Accrued Unfunded FECA Liabilities	87	22
Due to the General Fund	(Note 4) 2,210	4,228
Other Accrued Liabilities	(Note 10) 504	5,700
<b>Total Intragovernmental Liabilities</b>	<u>5,015</u>	<u>14,471</u>
Accounts Payable	3,017	2,298
Accrued Funded Payroll Benefits	1,527	1,540
Unfunded FECA Actuarial Liability	220	38
Accrued Refunds	(Note 5) 6,446	6,686
Accrued Unfunded Leave	3,299	2,902
Lease Liability	(Note 9) -	145
Other Liabilities	(Note 10) 3,742	3,781
<b>TOTAL LIABILITIES</b>	<u><u>\$ 23,266</u></u>	<u><u>\$ 31,861</u></u>
<b>NET POSITION</b>		
Unexpended Appropriations	\$ 15,835	\$ 16,712
Cumulative Results of Operations	10,302	10,073
<b>TOTAL NET POSITION</b>	<u>26,137</u>	<u>26,785</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u><u>\$ 49,403</u></u>	<u><u>\$ 58,646</u></u>

**DEPARTMENT OF THE TREASURY  
ALCOHOL AND TOBACCO TAX AND TRADE BUREAU  
STATEMENTS OF NET COST (Unaudited)  
For the Years Ended September 30, 2005 and 2004**

	2005	2004
	<i>(In Thousands)</i>	
<b>PROTECT THE PUBLIC</b>		
<b>Program Costs</b>		
Intragovernmental Gross Costs	\$ 16,105	\$ 9,666
Less: Intragovernmental Earned Revenue	(43)	-
Intragovernmental Net Costs	<u>16,062</u>	<u>9,666</u>
Gross Costs with the Public	29,176	14,389
Less: Earned Revenues from the Public (Note 14)	(753)	(241)
Net Costs with the Public	<u>28,423</u>	<u>14,148</u>
Total Net Cost	\$ 44,485	\$ 23,814
 <b>COLLECT THE REVENUE</b>		
<b>Program Costs</b>		
Intragovernmental Gross Costs	\$ 15,424	\$ 22,080
Less: Intragovernmental Earned Revenue (Note 14)	(41)	(483)
Intragovernmental Net Costs	<u>15,383</u>	<u>21,597</u>
Gross Costs with the Public	27,942	32,651
Less: Earned Revenues from the Public (Note 14)	(721)	(842)
Net Costs with the Public	<u>27,221</u>	<u>31,809</u>
Total Net Cost	\$ 42,604	\$ 53,406
<b>Costs Not Assigned to Programs</b>	-	-
<b>Less: Earned Revenues not Attributed to Programs</b>	-	-
<b>NET COST OF OPERATIONS</b>	<u>\$ 87,089</u>	<u>\$ 77,220</u>

**DEPARTMENT OF THE TREASURY  
ALCOHOL AND TOBACCO TAX TRADE BUREAU  
STATEMENTS OF CHANGES IN NET POSITION (Unaudited)  
For the Years Ended September 30, 2005 and 2004**

	<b>2005</b>	<b>2004</b>
	<i>(In Thousands)</i>	
<b>OPERATIONS</b>		
Beginning Balances	\$ 10,073	\$ (40)
Prior Period Adjustments (Note 6)	-	9,608
Beginning Balances, as Adjusted	<u>10,073</u>	<u>9,568</u>
<b>Budgetary Financing Sources</b>		
Appropriations Used	83,213	73,990
<b>Other Financing Sources</b>		
Imputed Financing from Costs Absorbed by Others (Note 13)	4,105	3,735
<b>Total Financing Sources</b>	<u>87,318</u>	<u>77,725</u>
<b>Net Cost of Operations</b> (Note 14)	<u>(87,089)</u>	<u>(77,220)</u>
<b>Net Position From Operations</b>	\$ 10,302	\$ 10,073
<b>UNEXPENDED APPROPRIATIONS</b>		
Beginning Balances	\$ 16,712	\$ 11,174
Prior Period Adjustments	-	-
Beginning Balances, as Adjusted	<u>16,712</u>	<u>11,174</u>
<b>Budgetary Financing Sources</b>		
Appropriations Received	83,000	80,000
Other Adjustments -- Re-appropriations	(664)	(472)
Appropriations Used	(83,213)	(73,990)
<b>Total Financing Sources</b>	<u>(877)</u>	<u>5,538</u>
<b>Net Position of Unexpended Appropriations</b>	\$ 15,835	\$ 16,712
<b>TOTAL NET POSITION</b>	<u>\$ 26,137</u>	<u>\$ 26,785</u>



**DEPARTMENT OF THE TREASURY  
ALCOHOL AND TOBACCO TAX AND TRADE BUREAU  
STATEMENTS OF BUDGETARY RESOURCES (Unaudited)  
For the Years Ended September 30, 2005 and 2004**

	2005	2004
	<i>(In Thousands)</i>	
<b>BUDGETARY RESOURCES</b>		
	(Note 15)	
Budget Authority		
Appropriations Received	\$ 83,000	\$ 80,000
Unobligated Balance - Beginning of Period		
Beginning of Period	667	1,214
Spending Authority from Offsetting Collections		
Earned		
Collected	2,179	873
Receivable from Federal Sources	(620)	755
Change in Unfilled Customer Orders		
Without Advance from Federal Sources	(38)	117
Subtotal	1,521	1,745
Recoveries of Prior Year Obligations	3,545	1,659
Permanently not Available	(664)	(472)
<b>TOTAL BUDGETARY RESOURCES</b>	<u>\$ 88,069</u>	<u>\$ 84,146</u>
<b>STATUS OF BUDGETARY RESOURCES</b>		
	(Note 16)	
Obligations Incurred:		
Direct	\$ 84,810	\$ 81,773
Reimbursable	1,528	1,706
Subtotal	86,338	83,479
Unobligated Balance:		
Apportioned	532	307
Unobligated Balance not Available	1,199	360
<b>TOTAL BUDGETARY RESOURCES</b>	<u>\$ 88,069</u>	<u>\$ 84,146</u>
<b>RELATIONSHIP OF OBLIGATIONS TO OUTLAYS:</b>		
Obligated Balance, Net - Beginning of the Period	\$ 23,580	\$ 12,596
Obligated Balance, Net - End of the Period		
Accounts Receivable	(205)	(825)
Unfilled Customer Orders from Federal Sources	(320)	(357)
Undelivered Orders	14,237	16,403
Accounts Payable	6,759	8,359
Outlays		
Disbursements	86,559	69,963
Collections	(2,179)	(873)
Subtotal	84,380	69,090
Less: Offsetting receipts	(29)	(3)
<b>NET OUTLAYS</b>	<u>\$ 84,351</u>	<u>\$ 69,087</u>

**DEPARTMENT OF THE TREASURY  
ALCOHOL AND TOBACCO TAX AND TRADE BUREAU  
STATEMENTS OF BUDGETARY RESOURCES (Unaudited)  
For the Years Ended September 30, 2005 and 2004**

	2005	2004
	<i>(In Thousands)</i>	
<b>BUDGETARY RESOURCES</b>		
	(Note 15)	
Budget Authority		
Appropriations Received	\$ 83,000	\$ 80,000
Unobligated Balance - Beginning of Period		
Beginning of Period	667	1,214
Spending Authority from Offsetting Collections		
Earned		
Collected	2,179	873
Receivable from Federal Sources	(620)	755
Change in Unfilled Customer Orders		
Without Advance from Federal Sources	(38)	117
Subtotal	1,521	1,745
Recoveries of Prior Year Obligations	3,545	1,659
Permanently not Available	(664)	(472)
<b>TOTAL BUDGETARY RESOURCES</b>	<u>\$ 88,069</u>	<u>\$ 84,146</u>
<b>STATUS OF BUDGETARY RESOURCES</b>		
	(Note 16)	
Obligations Incurred:		
Direct	\$ 84,810	\$ 81,773
Reimbursable	1,528	1,706
Subtotal	86,338	83,479
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<b>RELATIONSHIP OF OBLIGATIONS TO OUTLAYS:</b>		
Obligated Balance, Net - Beginning of the Period	\$ 23,580	\$ 12,596
Obligated Balance, Net - End of the Period		
Accounts Receivable	(205)	(825)
Unfilled Customer Orders from Federal Sources	(320)	(357)
Undelivered Orders	14,237	16,403
Accounts Payable	6,759	8,359
Outlays		
Disbursements	86,559	69,963
Collections	(2,179)	(873)
Subtotal	84,380	69,090
Less: Offsetting receipts	(29)	(3)
<b>NET OUTLAYS</b>	<u>\$ 84,351</u>	<u>\$ 69,087</u>

**DEPARTMENT OF THE TREASURY  
ALCOHOL AND TOBACCO TAX AND TRADE BUREAU  
STATEMENTS OF FINANCING (Unaudited)  
For the Years Ended September 30, 2005 and 2004**

	2005	2004
	<i>(In Thousands)</i>	
<b>Resources Used to Finance Activities</b>		
<b>Budgetary Resources Obligated</b>		
Obligations Incurred	\$ 86,338	\$ 83,479
Less: Spending Authority from Offsetting Collections and Recoveries	(5,066)	(3,405)
Obligations Net of Offsetting Collections and Recoveries	81,272	80,074
Less: Offsetting Receipts	(29)	(3)
Net Obligations	<u>81,243</u>	<u>80,071</u>
<b>Other Resources</b>		
Donations and Forfeitures of Property	-	-
Transfers In/Out without Reimbursement (+/-)	-	-
Imputed Financing from Costs Absorbed by Others (Note 13)	4,105	3,735
Other (+/-)	-	-
Net Other Resources Used to Finance Activities	<u>4,105</u>	<u>3,735</u>
<b>Total Resources Used to Finance Activities</b>	<u>\$ 85,348</u>	<u>\$ 83,806</u>
<b>Resources Used to Finance Items not Part of the Net Cost of Operations</b>		
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered but not Yet Provided (+/-)	\$ (1,950)	\$ 6,484
Resources that Fund Expenses Recognized in Prior Periods	-	405
Budgetary Offsetting Collections and Receipts That Do not Affect Net Cost of Operations	(29)	(3)
Other		
Resources that Finance the Acquisition of Assets	11,763	1,294
Other Resources or Adjustments to Net Obligated Resources that Do not Affect Net Cost of Operations (+/-)	(9,608)	-
<b>Total Resources Used to Finance Items not Part of the Net Cost of Operations</b>	<u>\$ 176</u>	<u>\$ 8,180</u>
<b>Total Resources Used to Finance the Net Cost of Operations</b>	\$ 85,172	\$ 75,626
<b>Components of the Net Cost of Operations Requiring or Generating Resources in Future Periods</b>		
<b>Components Requiring or Generating Resources in Future Periods:</b>		
Increase in Annual Leave Liability	\$ 397	\$ 780
Increase in Exchange Revenue Receivable from the Public	-	(3)
Other (+/-)	246	183
<b>Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods</b>	<u>\$ 643</u>	<u>\$ 960</u>
<b>Components of the Net Cost of Operations not Requiring or Generating Resources</b>		
Depreciation and Amortization	\$ 1,480	\$ 602
Revaluation of Assets or Liabilities (+/-)	61	24
Other	(267)	8
<b>Total Components of Net Cost of Operations that will not Require or Generate Resources in the Current Period</b>	<u>\$ 1,274</u>	<u>\$ 634</u>
<b>NET COST OF OPERATIONS</b>	<u>\$ 87,089</u>	<u>\$ 77,220</u>

**DEPARTMENT OF THE TREASURY  
ALCOHOL AND TOBACCO TAX AND TRADE BUREAU  
STATEMENTS OF CUSTODIAL ACTIVITY (Unaudited)  
For the Years Ended September 30, 2005 and 2004**

	<b>2005</b>	<b>2004</b>
	<i>(In Thousands)</i>	
<b>SOURCES OF CUSTODIAL REVENUE</b>		
<b>Revenue Received</b>		
Excise Taxes	\$ 14,718,034	\$ 14,744,961
Interest	1,237	249
Penalties and Fines	542	932
Other Custodial Revenue	29	3
<b>Total Revenue Received</b>	(Note 18) <u>14,719,842</u>	<u>14,746,145</u>
Refunds	(Note 17) <u>(337,736)</u>	<u>(372,231)</u>
<b>Net Revenue Received</b>	<u>14,382,106</u>	<u>14,373,914</u>
Accrual Adjustment	<u>(6,975)</u>	<u>3,341</u>
<b>Total Source of Custodial Revenue</b>	<u>\$ 14,375,131</u>	<u>\$ 14,377,255</u>
<b>DISPOSITION OF CUSTODIAL REVENUE</b>		
Amounts Provided to Non-Federal Entities	(Note 17) 425,612	341,536
Amounts Provided to Fund the Federal Government	(Note 18) 13,956,494	14,032,378
Accrual Adjustment	<u>(6,975)</u>	<u>3,341</u>
<b>Total Disposition of Custodial Revenue</b>	<u>\$ 14,375,131</u>	<u>\$ 14,377,255</u>
<b>NET CUSTODIAL REVENUE ACTIVITY</b>	<u>\$ -</u>	<u>\$ -</u>

## 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 the 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 the 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 to the creation of the Department of the Treasury and the first federal taxes levied on distilled spirits in 1791.

TTB collects alcohol, tobacco, firearms, and ammunition excise taxes, protects the consumer by ensuring that alcohol beverages are labeled, advertised, and marketed in accordance with the law, and facilitates trade in beverage and industrial alcohols.

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

The financial statements report the Bureau's the significant assets and liabilities, as well as the net cost of operations, changes in net position, budgetary resources, and custodial activities of TTB. The financial statements have been prepared from the books and records of TTB in conformity with generally accepted accounting principals (GAAP) of the United States, form and content for entity financial statements specified by the Office of Management and Budget (OMB) in OMB Circular A-136, and guidance issued by the Treasury Department.

TTB's accounting policies are summarized in this note. GAAP for Federal entities is primarily the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB), which is the body designated by the American Institute of Certified Public Accountants to set the official accounting standards for the Federal Government. 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 fiscal 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 are 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 Department, 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 fiscal 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 at a cost greater than or equal to \$50,000 per unit, and with a useful life of two years or more, is capitalized and depreciated. This threshold was raised during fiscal year 2005 from its previous level of \$25,000 per unit. Other equipment is expensed when purchased. Normal repairs and maintenance are charged to expenses 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 will also apply to enhancements that add significant functionality to the software. TTB will amortize this software based on its classification. The classifications are as follow:

- (1) Enterprise and other business software (five years); and
- (2) Personal productivity and desktop operating software (three years).

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

Prepayments are payments made to cover certain periodic expenses before those expenses are incurred. In accordance to Public Law 91-614, TTB participated in the Treasury's Working Capital Fund for which it receives 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 graphics, and other administrative services.

The amount reported represents the balance available at the end of the fiscal year after the Bureau deducts charges and expenses incurred by the Fund.

**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 to be an available financing source 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 a liability not covered by budgetary resources. Also, the Government, acting in its sovereign capacity, can abrogate liabilities of TTB that arise outside of contracts.

Intergovernmental liabilities consist of amounts payable to the Treasury for collections of excise tax, fees receivable, payments to other Federal agencies, and accrued Federal Employees' Compensation Act (FECA) charges. Liabilities also include amounts due to be refunded to taxpayers, 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 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, 31U.S.C. 3901 through 3907, Federal agencies must pay interest on payments for goods or services made to businesses 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 2005. 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 one percent contribution to this account. In addition, TTB makes matching contributions ranging from one to four 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 OPM. Costs financed by OPM are reported in the accompanying financial statements as an imputed financing revenue source. Reporting amounts such as plan assets, accumulated plan benefits or unfunded liabilities, if any, is the responsibility of the OPM.

**O. Federal Employees' Compensation Act**

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to covered Federal civilian employees injured on the job and employees who have incurred a work-related injury or occupational disease. The future workers' compensation estimates are 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, 2005 and 2004 consisted of the following (in thousands):

	<u>2005</u>	<u>2004</u>
Fund Balances:		
Appropriated Funds	\$ 22,374	\$ 24,247
Other Funds	<u>3,571</u>	<u>3,781</u>
Total	<u>\$ 25,945</u>	<u>\$ 28,028</u>
Status of Fund Balances:		
Unobligated Balance - Available	\$ 532	\$ 307
Unobligated Balance - Unavailable	1,199	360
Obligated Balance not yet Disbursed	20,643	23,580
Non-Budgetary FBWT	<u>3,571</u>	<u>3,781</u>
Total Status of Fund Balances	<u>\$ 25,945</u>	<u>\$ 28,028</u>

The non-budgetary fund balance primarily represents cash payments made to the Bureau by taxpayers in lieu of obtaining corporate surety bonds, which guarantee the payment of taxes. The balance also includes Offers in Compromise (OIC). OICs are payments made to the Bureau, being held in escrow, to finance offers from taxpayers to settle their tax debt at less than the assessed amount.

**Note 3. Accounts Receivable (Net)**

Accounts Receivable as of September 30, 2005 and 2004 consisted of the following (in thousands):

	<u>2005</u>	<u>2004</u>
Intragovernmental Accounts Receivable:		
Due from ATF	\$ -	\$ 483
Due from GSA	43	-
Total Intragovernmental Accounts Receivable	<u>\$ 43</u>	<u>\$ 483</u>
Due from the Government of Puerto Rico	\$ 205	\$ 341
Due from Commercial Vendors	79	-
Due from Employees	12	13
Total Accounts Receivable Due from the Public	<u>\$ 296</u>	<u>\$ 354</u>

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

**Note 4. Tax and Trade Receivables (Net)**

Tax and Trade Receivables as of September 30, 2005 and 2004 consisted of the following (in thousands):

	<u>2005</u>	<u>2004</u>
Taxes Receivable	\$ 10,414	\$123,985
Interest Receivable	2,021	25,296
Penalties, Fines and Administrative Fees Receivable	2,941	16,163
Total Tax and Trade Receivables	<u>15,376</u>	<u>165,444</u>
Allowance for Doubtful Accounts	<u>(12,662)</u>	<u>(155,516)</u>
Total Tax and Trade Receivables, Net	<u>\$ 2,714</u>	<u>\$ 9,928</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.

During fiscal year (FY) 2005, nearly \$143 million in assessments to one taxpayer were

deemed erroneous. As of September 30, 2004, Equistar Chemicals had not filed their documentation for proof of exportation, which resulted in the \$143 million tax assessment. However, it was determined that proof of exportation would likely be submitted and therefore the resulting receivable was offset by an allowance for doubtful accounts. As a result, the adjustment in FY 2005 only impacted the gross receivables and allowances, and had no impact on the net tax and trade receivables.

### Note 5. Due from the General Fund

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

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

General Property, Plant and Equipment as of September 30, 2005 and 2004 consisted of the following (in thousands):

<u>2005</u>	<u>Service Life (Years)</u>	<u>Acquisition Value</u>	<u>Accumulated Depreciation</u>	<u>Net 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>

<u>2004</u>	<u>Service Life (Years)</u>	<u>Acquisition Value</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
ADP Software	3	\$ 2,454	\$ 352	\$ 2,102
Equipment	2 - 10	2,986	2,375	611
Leasehold Improvements	2 - 5	300	4	296
Assets Under Capital Lease	3 - 6	208	58	150
Buildings	40	9,689	81	9,608
Total PP&E		<u>\$ 15,637</u>	<u>\$ 2,870</u>	<u>\$ 12,767</u>

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

The FY 2004 ending balance for buildings was recorded as a prior period adjustment in fiscal 2005, which resulted in a restatement of the prior fiscal year's balance. On June 4, 2004, TTB's Chief Counsel issued an opinion concluding that TTB owned an equity interest in the National Laboratory Center facility in Beltsville, Maryland where ATF is the majority occupant.

During fiscal 2004, ATF was still providing accounting services to the Bureau. Since ATF's management did not want to concede that TTB had an ownership interest in the National Laboratory Center, and due to the fact that ATF was still providing our accounting services and acting as the custodian of our accounting records, the agency did not record the building on our books. In FY 2005, ATF no longer provided our accounting services, thereby enabling us to record the necessary adjustment.

### Note 7. Prepayments

Intragovernmental prepayments consist of the balances paid to Treasury's Working Capital Fund that have not yet been earned and billed by the fund. The prepayment with the public is the balance in a commercial account that was established to administer the fiscal 2004 on-the-spot award program.

### Note 8. Non-entity Assets

The Bureau has total assets valued at \$49.4 million, of which \$12.7 million are non-entity assets. Below is a detailed breakout of the non-entity assets.

Non-entity assets as of September 30, 2005 and 2004 consisted of the following (in thousands):

	<u>2005</u>	<u>2004</u>
Intragovernmental Non-entity Assets:		
Fund Balance with Treasury	\$ 3,571	\$ 3,781
Due from the General Fund	6,446	6,686
Total Intragovernmental Non-entity Assets	<u>10,017</u>	<u>10,467</u>
Tax and Trade Receivables, Net	2,714	9,928
Total Non-Entity Assets	<u>12,731</u>	<u>20,395</u>
Total Entity Assets	<u>36,672</u>	<u>38,251</u>
Total Assets	<u>\$ 49,403</u>	<u>\$ 58,646</u>

### Note 9. Leases

- Future Capital Lease Payments

The Bureau does not have any property that meets the capital lease criteria. During FY 2004, the Bureau had five lease agreements for photo copiers, which met the requirements to be considered a capital lease. Assets acquired by capital lease agreement are reported on the accompanying Balance Sheet based on the lesser of the present value of the future minimum payments or the fair market value of the asset. Imputed interest rates, used to compute the present value of future lease payment, range from 1.4 to 13.9 percent. TTB expects the capital lease liability to be funded from future sources and is considered a component of the other liabilities not covered by budgetary resources.

Leases as of September 30, 2005 and 2004 consisted of the following (in thousands):

Capital Leases	<u>2005</u>	<u>2004</u>
Summary of Assets Under Capital Lease:		
Equipment	\$ -	\$ 208
Accumulated Amortization	-	(58)
Total	<u>\$ -</u>	<u>\$ 150</u>

Future minimum lease payments for capital leases on equipment as of September 30, 2005 and 2004, are as follows:

Future Payments Due:	2005	2004
Fiscal Year		Equipment
2005	\$ -	\$ 45
2006	-	45
2007	-	45
2008	-	19
2009	-	-
2010	-	-
After 2010	-	-
Subtotal	<u>-</u>	<u>154</u>
Less: Imputed Financing	-	(9)
Net Capital Lease Liability	<u>\$ -</u>	<u>\$ 145</u>

- Future Operating Lease Payments

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

Future commitments under operating leases for equipment as of September 30, 2005 and 2004, are as follows:

Future Operating Lease Payments Due:

Fiscal Year	2005	2004
	<u>Equipment</u>	<u>Equipment</u>
2005	\$ -	\$ 29
2006	51	24
2007	17	20
2008	-	20
2009	-	20
2010	-	20
After 2010	-	-
Total Future Lease Payments	<u>\$ 68</u>	<u>\$ 133</u>

#### Note 10. Other Liabilities

Other Liabilities as of September 30, 2005 and 2004 consisted of the following (in thousands):

	<u>2005</u>	<u>2004</u>
Other Accrued Liabilities	\$ 504	\$ 5,700
Other Intragovernmental Liabilities	\$ 504	\$ 5,700
Cash Bond Liabilities	\$ 3,711	\$ 3,778
Offers-in-Compromise not yet Accepted	31	3
Total Other Liabilities with the Public	\$ 3,742	\$ 3,781
Total Other Liabilities	<u>\$ 4,246</u>	<u>\$ 9,481</u>

All other liabilities are considered current liabilities.



**Note 11. Liabilities Not Covered by Budgetary Resources**

For fiscal years 2005 and 2004, the Bureau's total liabilities were \$23.2 million and \$31.9 million, of which \$3.6 million and \$3.1 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, 2005 and 2004 consisted of the following (in thousands):

	<u>2005</u>	<u>2004</u>
Accrued Unfunded FECA Liability	\$ 87	\$ 22
Total Intragovernmental Liabilities not Covered by Budgetary Resources	87	22
FECA Actuarial Liability	220	38
Accrued Leave	3,299	2,902
Capital Lease Liability	-	145
Total Liabilities with the Public not Covered by Budgetary Resources	<u>3,519</u>	<u>3,085</u>
Total Liabilities not Covered By Budgetary Resources	3,606	3,107
Total Liabilities Covered by Budgetary Resources	<u>19,660</u>	<u>28,754</u>
Total Liabilities	<u>\$ 23,266</u>	<u>\$ 31,861</u>

**Note 12. 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 that period.

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

**Note 13. Imputed Financing**

Imputed Financing as of September 30, 2005 and 2004 consisted of the following (in thousands):

	<u>2005</u>	<u>2004</u>
Health Insurance	\$ 2,175	\$ 1,837
Life Insurance	6	5
Pension	1,400	1,391
Services from ATF	406	-
Services from GSA	118	-
Services from Treasury Franchise Fund	-	502
Total Imputed Financing	<u>\$ 4,105</u>	<u>\$ 3,735</u>

Imputed financing recognizes actual cost of future benefits to be paid by other Federal entities. These benefits include Federal Employees Health and Benefits Program (FEHBP), Federal Employees Group Life Insurance Program (FEGLI), and pensions. Imputed financing also recognizes cost to be paid by the Treasury Judgment Fund. Congress established and funded the Judgment Fund under 31 U.S.C. 1304 to pay in whole or in part court judgments and settlement agreements negotiated by Treasury on behalf of agencies, as well as certain types of administrative awards. The Judgment Fund did not pay out any awards on TTB's behalf during fiscal years 2005 or 2004.

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 the Office of Personnel Management (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 2005 FEHBP cost factor applied to a weighted average number of employees enrolled in the FEHBP is \$4,903, which produced a \$2.2 million imputed cost. The FY 2005 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 \$6,000 is also included as an expense and imputed financing source in TTB financial statements for FY 2005.

Imputed costs also included \$524,000 of cost absorbed by ATF and General Services Administration for administrative and phone services provided to the Bureau that were not billed.

## Note 14. Consolidated Gross Cost and Earned Revenue by Budget Functional Classification

Consolidated Gross Cost and Earned Revenue by Budget Function Classification as of September 30, 2005 and 2004 consisted of the following (in thousands):

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	31,529	(84)	31,445
With the Public	Central Fiscal Operations	803	<u>\$57,118</u>	<u>\$(1,474)</u>	<u>\$55,644</u>

Fiscal Year Ended September 30, 2004

Activity	Budget Function Classification	Code	Gross Costs	Earned Revenue	Net Costs
Consolidated	Central Fiscal Operations	803	\$ 78,786	\$(1,566)	\$ 77,220
Intragovernmental	Central Fiscal Operations	803	31,746	(483)	31,263
With the Public	Central Fiscal Operations	803	<u>\$47,040</u>	<u>\$(1,083)</u>	<u>\$45,957</u>

## Note 15. 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 \$400 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 2005 and 2004, P.L. 108-447 and P.L. 108-199, respectively (in thousands):

	<u>2005</u>	<u>2004</u>
Appropriations Received	\$ 83,000	\$ 80,000
Rescissions	<u>(664)</u>	<u>(472)</u>
Appropriations Received, Net	82,336	79,528
Spending Authority From Offsetting Collections	<u>1,521</u>	<u>1,745</u>
Total Budgetary Resources	<u>\$ 83,857</u>	<u>\$ 81,273</u>

### Note 16. Apportionment Categories of Obligations Incurred

Obligations Incurred as of September 30, 2005 and 2004 consisted of the following (in thousands):

Fiscal Year	Apportionment Category	Direct Obligations	Reimbursable Obligations	Total Obligations Incurred
2005	Category B	<u>\$ 84,810</u>	<u>\$ 1,528</u>	<u>\$ 86,338</u>
2004	Category B	<u>\$ 81,773</u>	<u>\$ 1,706</u>	<u>\$ 83,479</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 17. 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 Tax is collected from certain alcohol and tobacco businesses. During FY 2005, TTB collected more than \$14.7 billion in taxes, interest, and other revenues.

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

- Refunds and Other Payments

During FY 2005, TTB issued more than \$763.3 million in refunds, cover-over payments, and drawback payments.

### **Cover-over Payments**

Federal excise taxes are collected under the Internal Revenue Code of 1986 (IRC), 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 of the IRC 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. TTB verifies the collection of all revenue rightfully due from the taxpayer through revenue inspections. TTB staff in Puerto Rico also conducts qualification inspections of all distilled spirits producers/processors, wineries, wholesalers, importers, Manufacturer of Non-Beverage Products (MNBPP) claimants, and specially denatured alcohol permit applicants. All costs associated with the functioning and supporting of the Puerto Rico office, \$1.5 million in fiscal year 2005, are offset against the cover-over payments made by the United States to Puerto Rico.

**Drawbacks**

Under current law, 26 U.S.C. 5134, MNBPs 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 is unfit for beverage purposes and was used in the manufacture or production of medicines, medicinal preparations, food products, flavors, flavoring extracts, or perfume.

Refunds, Drawbacks and Coverover Payments as of September 30, 2005 and 2004 consisted of the following (in thousands):

	<u>2005</u>	<u>2004</u>
Alcohol and Tobacco Excise Tax Refunds	\$ 18,504	\$ 15,409
Drawbacks on MNBP Claims	317,132	355,605
Interest and Other Payments	2,100	1,217
Refunds	<u>337,736</u>	<u>372,231</u>
Cover-over Payments - Puerto Rico	419,602	335,293
Cover-over Payments - Virgin Islands	6,010	6,243
Amounts Provided to Non-federal Entities	<u>425,612</u>	<u>341,536</u>
Total Refunds, Drawbacks and Coverover Payments	<u>\$763,348</u>	<u>\$713,767</u>

As of September 30, 2005, the amount of custodial liability due to the General Fund was \$2,714.

**Note 18. Non-exchange Revenues and Refunds**

Collection and Disposition of Custodial Revenue as of September 30, 2005 and 2004 consisted of the following (in thousands):

<u>Revenue Type</u>	<u>Tax Year</u>				<u>FY 2005</u>
	<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)
Total	\$ 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

<u>Revenue Type</u>	<u>Tax Year</u>				<u>FY 2004</u>
	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>Pre-2002</u>	<u>Total</u>
Excise Taxes	\$ 14,743,751	\$ 991	\$ (45)	\$ 263	\$ 14,744,960
Fines, Penalties, Interest and Other	701	369	62	53	1,185
Subtotal	14,744,452	1,360	17	316	14,746,145
Less: Amounts Collected for Non-federal Entities	(341,536)	-	-	-	(341,536)
Total	\$ 14,402,916	\$ 1,360	\$ 17	\$ 316	\$ 14,404,609
<u>Refund Type</u>					
Excise Taxes	\$ 372,047	\$ 52	\$ -	\$ -	\$ 372,099
Fines, Penalties, Interest and Other	131	1	-	-	132
Total Refunds	\$ 372,178	\$ 53	\$ -	\$ -	\$ 372,231
Amounts Provided to Fund the Federal Government	\$ 14,030,738	\$ 1,307	\$ 17	\$ 316	\$ 14,032,378

## Supplemental Information

### Budgetary Information

For proprietary reporting, TTB only has appropriated funds. Consequently, this report does not contain a Combining Statement of Budgetary Resources disaggregated by fund type.

### Intragovernmental Assets

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>

Required Supplemental Information Consolidated Intragovernmental Assets As of September 30, 2004 Unaudited				
Dollars in Thousands				
Trading Partner	Agency Code	Fund Balance W/Treasury	Accounts Receivable	Advances and Other Assets
Department of Justice	15	\$ -	\$ 483	\$ -
Department of the Treasury	20	28,028	-	394
General Fund	99	-	6,686	-
Total		<u>\$ 28,028</u>	<u>\$ 7,169</u>	<u>\$ 394</u>



**Intragovernmental Liabilities**

<b>Required Supplemental Information Consolidated Intragovernmental Liabilities As of September 30, 2005 Unaudited</b>				
<b>Dollars in Thousands</b>				
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>

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

## Intragovernmental Earned Revenue

Required Supplemental Information Consolidated Intragovernmental Earned Revenue For the Fiscal Years Ended September 30, 2005 and 2004 Unaudited			
Dollars in Thousands		FY 2005	FY 2004
Trading Partner	Agency Code		
Department of Justice	15	\$ 84	\$ 483
Total		<u>\$ 84</u>	<u>\$ 483</u>
<b>Gross Cost to Generate Earned Revenue:</b>			
Budget Function Classification	Code	FY 2005	FY 2004
Central Fiscal Operations	803	\$ 84	\$ 483
Total		<u>\$ 84</u>	<u>\$ 483</u>

## 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, 2005 and 2004 Unaudited							
Dollars in Thousands		FY 2005					
Trading Partner	Agency Code	Imputed Financing Sources	Nonexchange Activity				Non-exchange Revenue and Other Financing Sources
			Unexpended Appropriations		Cumulative Results of Operations		
			Transfers-In	Transfers-Out	Transfers-In	Transfers-Out	
Department of the Interior	14	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 220,607
Department of Justice	15	406	-	-	-	-	-
Department of the Treasury	20	-	-	-	-	-	-
Office of Personnel Management	24	3,581	-	-	-	-	-
General Services Administration	47	118	-	-	-	-	-
General Fund	99	-	-	-	-	-	13,368,674
Total		<u>\$ 4,105</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,589,281</u>

Dollars in Thousands			FY 2004				
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	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 220,972
Department of the Treasury	20	502	-	-	-	-	-
Office of Personnel Management	24	3,233	-	-	-	-	-
General Fund	99	-	-	-	-	-	13,816,462
Total		<u>\$ 3,735</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,037,434</u>

### Intragovernmental Gross Cost

Required Supplemental Information					
Consolidated Intragovernmental Gross Cost					
For the Fiscal Years Ended September 30, 2005 and 2004					
Unaudited					
Dollars in Thousands		FY 2005	FY 2004		
Trading Partner	Agency Code				
Library of Congress	03	\$ 33	\$ 25		
Government Printing Office	04	594	-		
Department of Justice	15	2,538	14,889		
Department of Labor	16	64	(405)		
Department of the Treasury	20	4,556	1,374		
Department of the Army	21	5	-		
Office of Personnel Management	24	10,140	9,141		
General Services Administration	47	10,855	6,405		
Department of Homeland Security	70	286	5		
Department of Health and Human Services	75	50	50		
National Archives Records Administration	88	26	-		
Department of Defense	97	86	12		
General Fund	99	2,296	250		
Total		<u>\$31,529</u>	<u>\$31,746</u>		

During FY 2005, TTB incurred costs with other Federal agencies totaling \$31.5 million. The majority of those costs were associated with the five entities detailed below.

- Department of Justice – ATF provided the Bureau with \$2.5 million in administrative and IT services.
- Department of the Treasury – The Bureau received services from Treasury's Working Capital Fund, as well as administrative services from the Bureau of Public Debt's Administrative Resource Center, in the amount of \$4.6 million.
- Office of Personnel Management – TTB incurred \$10.1 million in costs for employee benefits.
- General Services Administration – TTB paid \$10.9 million to GSA for rent and IT services.
- General Fund – TTB paid \$2.3 million 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
1996	\$ 6,633,546	\$ 5,772,803	\$ 161,030	\$ 108,275	\$ 103	\$ 9	\$ 12,675,766
1997	6,594,847	5,879,744	149,090	106,691	35	19	12,730,426
1998	6,524,894	5,623,987	164,792	106,236	2	156	12,420,067
1999	6,646,879	5,189,724	187,978	104,740	-	229	12,129,550
2000	6,777,592	6,758,060	197,840	102,803	261,824	351	14,098,470
2001	6,674,425	7,119,726	175,959	103,610	528	168	14,074,416
2002	6,889,401	7,763,652	205,027	101,893	115,609	159	15,075,741
2003	6,910,631	7,380,807	193,414	103,781	1,628	-	14,590,261
2004	6,995,366	7,433,852	216,006	100,562	-	359	14,746,145
2005	7,074,076	7,409,608	225,818	10,190	9	141	14,719,842
Average	\$ 6,772,166	\$ 6,633,196	\$ 187,695	\$ 94,878	\$ 37,974	\$ 159	\$ 13,726,068

FAET - Firearms and Ammunition Excise Tax

SOT - Special Occupational Tax

FST - Floor Stock Tax

The sharp decrease in Special Occupational Tax (SOT) collections resulted from a new law that that suspended the SOT during FY 2005.

## 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
1996	\$ 220,733	\$ 2,308	\$ 5,944	\$ 237,128	\$ 2,349	\$ 468,462
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
Average	\$ 296,980	\$ 4,019	\$ 10,329	\$ 286,360	\$ 1,852	\$ 599,540

A&amp;T - Alcohol and Tobacco

MNBP - Manufacturer of Non-Bevage Products

## *Principal Officers of TTB*

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

*For additional information, contact:*

**Alcohol and Tobacco Tax and Trade Bureau**

**1310 G Street, NW**

**Washington, DC 20220**

**(202) 927-5000**

**<http://www.ttb.gov>**

## Part IV: Appendices

### RELATIONSHIP BETWEEN THE TREASURY AND TTB STRATEGIC PLANS

#### Treasury Objectives

**Promote stable U.S. and world economies**

Increase citizens' economic security.

**Manage the U.S. Government's finances effectively**

Collect Federal tax revenue when due, through a fair and uniform application of the law.

**Ensure professionalism, excellence, integrity, and accountability in the management and conduct of the Department of the Treasury**

Manage Treasury resources effectively, to accomplish the mission and provide quality customer service.

#### TTB Strategic Goal

**Protect the Public:**

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

**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.

**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.

#### TTB Objectives

Ensure that regulated products meet commodity and safety requirements established by Federal law, provide information to the public, and reduce the burden on industry.

Prevent consumer deception, ensure compliance with Federal distribution requirements, and provide information to the public.

Improve service to the taxpayer and reduce the burden of compliance with Federal law.

Collect all the revenue that is rightfully due.

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

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

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.

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.

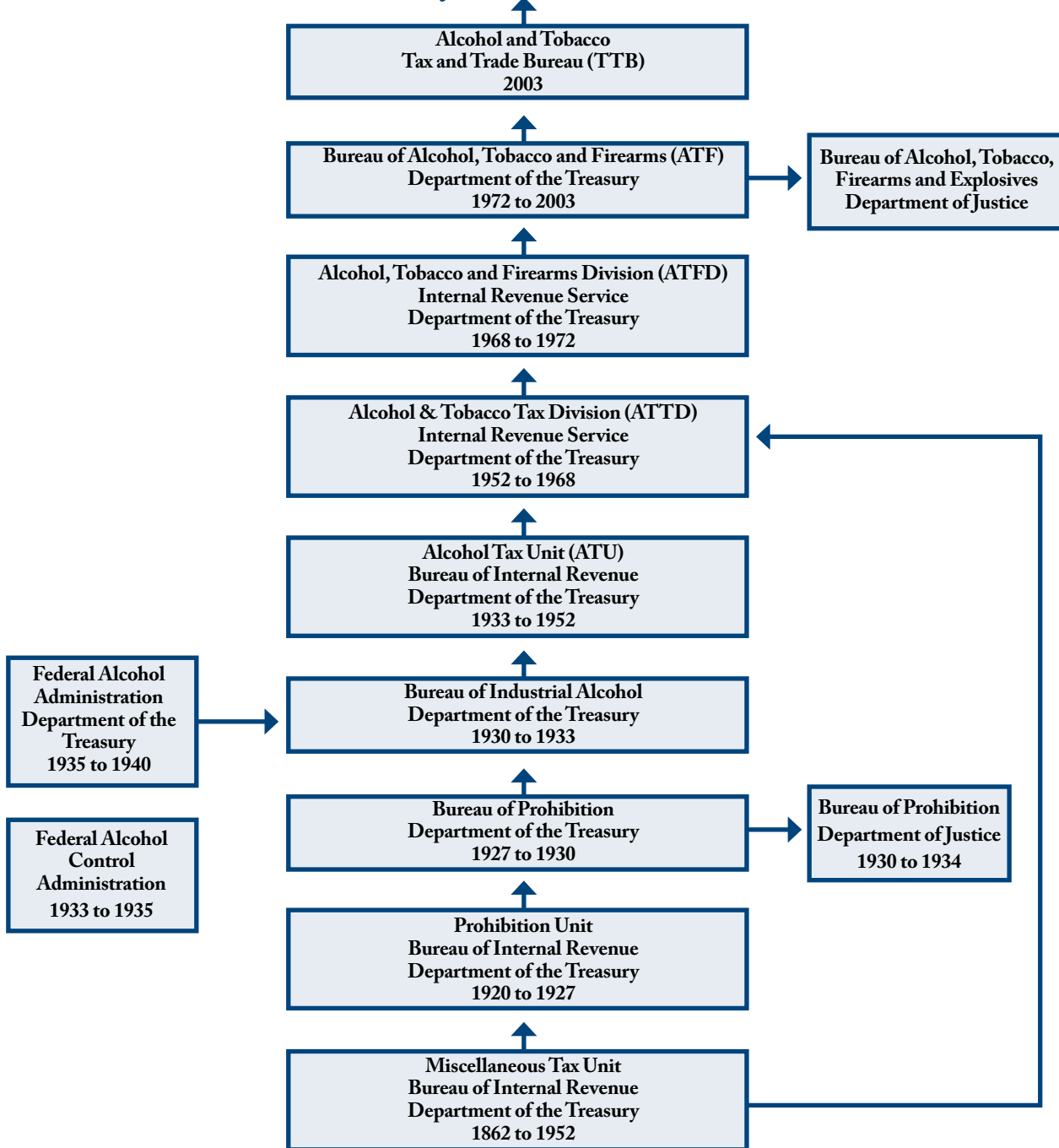
Manage human capital to support TTB programs and the achievement of Bureau goals by building and sustaining a work environment conducive to performance excellence, and personal and organizational development.



# Department of the Treasury

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

### *History (1789 – 2005)*



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

