Alcohol and Tobacco Tax and Trade Bureau

2007 Performance & Accountability Report

A proud past...
A focused future

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Our mission is to collect alcohol, tobacco, firearms, and ammunition excise taxes that are rightfully due, to protect the consumer of alcohol beverages through compliance programs that are based upon education and enforcement to ensure a fair and even marketplace; and to assist industry members to understand and comply with Federal tax, product, and marketing requirements associated with the commodities we regulate.

Introduction

The Alcohol and Tobacco Trade and Tax Bureau (TTB) submits its 2007 Performance and Accountability Report. This document is not compulsory under the Government Performance and 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 2007 operations. Combining the program performance and financial information into a single document provides a comparison of actual performance with the projected or target levels of performance set out in agency planning documents and our annual performance budget.

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

The document is separated into four parts:

- **Part I – *Management's Discussion and Analysis.*** This section provides a message from the TTB Administrator, highlights of program and financial operations, and a summary of TTB's program performance.

- **Part II – *Program Performance Results.*** In this section, the report provides a recap of each performance measure, the results of the Program Assessment Rating Tool (PART) evaluations, and an update on TTB's progress with the PMA.

- **Part III – *Financial Information.*** The Department of the Treasury is one of 23 Federal agencies that are required by Federal law to produce annual audited financial statements. TTB presents unaudited financial statements in Part III of this document. The transactions and records that comprise this information are part of the consolidated financial data, which have been presented at the Departmental level. Although these statements are not independently audited, the information should be viewed as a reliable and accurate portrayal of the Bureau's financial operations. Also included in this section is a message from the TTB Chief Financial Officer, a summary of the challenges the Bureau faces, and supplemental information, such as a history of Federal excise tax collections for the past decade.

- **Part IV – *Appendices.*** This section includes a listing of TTB principal officers, strategic planning information that demonstrates linkages with the overall Department of the Treasury's mission and goals, and a history of the Bureau.

Message from the Administrator

The Bureau has one of the longest and most illustrious histories in the Federal Government. The U.S. Department of the Treasury and the first Federal taxes on distilled spirits were established in 1791. Legislation passed in January 2003 established TTB as a new Treasury bureau with a mission as old as Treasury itself: "Collect the Revenue" and "Protect the Public."

I am pleased to present the financial and performance data contained in this report and we are confident that these data are both complete and reliable information on Bureau accomplishments. We take great pride in our mission accomplishments, and we are steadfast in our commitment to collect those Federal excise taxes which are rightfully due, and in fulfilling our regulatory obligations. TTB oversees the annual collection of roughly $15 billion in Federal excise tax revenues from alcohol, tobacco, firearms, and ammunition, and regulates the industries, under the authority of the Internal Revenue Code and the Federal Alcohol Administration Act.

While the Bureau works to fulfill its vital mission, it places emphasis on reducing the taxpayer burden, promoting voluntary compliance, and increasing compliance through a variety of means, including rulemaking and outreach activities. We continuously work to ensure that our regulations are clear and up to date, and we promote electronic Government initiatives in order to provide clients with a more effective and efficient way to pay their taxes and to comply with regulatory requirements. We offer the alcohol and tobacco industries the electronic means to file tax returns, make payments, and submit operational reports. In FY 2007, we expanded the electronic filing of taxes to include all alcohol and tobacco tax forms, enhancing online access and information availability.

TTB's focus on maintaining an efficient and effective field audit and investigation program is designed to encourage voluntary compliance by industry members. This 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. Also, during FY 2007, TTB restructured the Tobacco Enforcement Division to detect and evaluate potential, unlawful activities under TTB's jurisdiction and to evaluate intelligence it gains to determine whether a viable enforcement case may be made.

Our quest for continuous improvement and quality service to our clients is driven by outreach efforts such as seminars and customer surveys. TTB conducted a number of industry compliance seminars, which were well attended by industry members. These educational forums are a significant reason why we successfully reached our voluntary compliance performance standards from industry members. The outreach program has resulted in improved efficiency and quality of customer services, and has been used to refine our operations.

TTB programs ensure that alcohol beverages are labeled, advertised, and marketed in accordance with the law. Alcohol industries submit labeling information online, saving them considerable time and money in reporting information and making applications. By the end of FY 2007, 51 percent of all labeling information was submitted online. This is critical considering that the number of label applications has increased by almost double digits from year to year while the number of FTE has remained constant. Fifteen employees processed roughly 125,000 COLA applications in FY 2007.

In the 2007 Partnership for Public Service and Institute for the Study of Public Policy Implementation survey, "The Best Places to Work in the Federal Government," TTB not only ranked tenth among 222 programs as the best place to work, but also ranked second for its family-friendly environment and sixth in strategic management.

In 2007, negotiations among the World Wine Trade Group (WWTG) governmental representatives culminated with the signing of an international trade agreement in wine, which involves the adoption of common labeling principles among the WWTG countries—the United States, Argentina, Canada, Chile, and New Zealand. TTB supported the Office of the U.S. Trade Representative in successfully brokering this agreement.

We were pleased this year when the Scientific Services Division received third-party recognition of its quality program by receiving accreditation from the International Organization for Standardization (ISO). ISO accreditation promotes recognition and respect for our laboratories' technical competence by industry and other agencies, both nationally and internationally.

In response to a number of new mandated security upgrades and to protect sensitive data, TTB encrypted the hard drives on all computers during May 2007. This encryption process provides the most aggressive level of protection for personally identifiable information. The deployment of full hard drive encryption minimizes risk to Bureau personnel and our regulated industry members.

Also, once more, I am pleased to report that TTB provides reasonable assurance that the objectives under the Federal Managers' Financial Integrity Act (FMFIA) have been achieved. TTB's management and control systems, as a whole, provide reasonable assurance that TTB met the objectives of the FMFIA for FY 2007. TTB has no reportable conditions related to internal controls and no reportable instances of non-compliance with laws and regulations that could have a direct and material effect on the financial statements. We continue to review financial management business practices and related processes to identify areas for improvement, while working to strengthen internal controls to ensure reliability in financial activities.

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.

Signed by John Manfreda

John J. Manfreda
Administrator

Vision, Goals, and Values

Vision

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

Goals for Collect the Revenue:

1. **Outreach/Promote Cooperation:**
   Provide high quality service, while imposing the least regulatory burden.

2. **Enforcement:**
   Promote voluntary compliance and eliminate or prevent tax evasion and other criminal conduct.

3. **Effective and Efficient Tax Collection Systems:**
   Provide the most effective and efficient system for the collection of all revenue that is rightfully due.

Goals for Protect the Public:

1. **Business Integrity:**
   Assure that only persons who carry permits as authorized by statute operate within the industries TTB regulates.

2. **Product Integrity:**
   Help industry members comply with all Federal labeling and advertising requirements for their products.

3. **Market Integrity:**
   Assure the alcohol marketplace is free from anti-competitive practices.

4. **Effective and Efficient Systems to Promote Economic Opportunity:**
   Facilitate economic opportunity and growth by maximizing TTB PTP systems' effectiveness and efficiencies.

Refine Management Practices:

1. **Management-Supported Optimum Program Effectiveness and Efficiency:** Ensure that all TTB programs operate at optimum efficiency and effectiveness and with full accountability, by providing high quality management and administrative support.

Values

We value each other and those we serve. We:

- 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.

Introduction

Organizational Structure

Creation of a Bureau

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

TTB has two primary missions:

- Collecting the Revenue, and
- Protecting the Public.

Responsibilities

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

a. Collecting alcohol, tobacco, firearms, and ammunition excise taxes and classifying alcohol and tobacco products for excise tax purposes;

b. Investigating applications and issuing permits for the operation of distilleries, wineries, and breweries;

c. Investigating applications and issuing permits for tobacco manufacturers, importers, warehouse proprietors, and exporters of tobacco products;

d. Regulating the operations of various industrial users of distilled spirits, including manufacturers of non-beverage products and tax-free and denatured alcohols;

e. Regulating the production, packaging, and storage of alcohol and tobacco products and labeling and bottling of alcohol beverages;

f. Ensuring that labeling and advertising of alcohol beverages provide adequate information to the consumer concerning the identity of the product;

g. Preventing misleading labeling or advertising of alcohol beverages;

h. Regulating the marketing and promotional practices concerning the sale of alcohol beverages by producers, importers, and wholesalers.

i. 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; and

j. Briefing members of Congress and Treasury officials on matters relating to alcohol beverages, tobacco products, and firearms and ammunitions excise taxes.

Key Components

TTB headquarters is located in Washington, D.C., and is comprised of roughly 150 employees. The largest components of TTB employees, about 180, are located at the National Revenue Center (NRC) in Cincinnati, Ohio. The remaining TTB employees are located in field offices that have been established in several major U.S. cities, as well as Puerto Rico, or at TTB's laboratory facilities located in Beltsville, MD and Walnut Creek, CA. The Maryland facility is jointly owned by TTB and the Department of Justice's Bureau of Alcohol, Tobacco, Firearms, and Explosives.

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

Office of the Administrator

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

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

Equal Employment Opportunity/ Diversity Advancement (EEO/DA)

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

Assistant Administrator, Field Operations (FO)

The FO organization ensures tax and trade compliance with the Federal Alcohol Administration (FAA) Act and the Internal Revenue Code (IRC) by: providing assistance and advice to other Federal and State agencies, industry members, and the general public; developing and implementing programs to ensure effective tax and trade compliance; and conducting tax audits and investigations at the regulated industries premises. In addition, the FO organization processes and examines excise tax returns, operational reports, claims, Special Occupational Tax returns, conducts appropriate collections activities for tax programs administered by TTB under Chapters 32, 51 and of the Internal Revenue Code (IRC), and processes original applications to establish businesses that produce, store, import, use, and deal in all types of alcohol, firearms, and tobacco products under the FAA Act and the IRC.

Assistant Administrator, Headquarters Operations (HQ Ops)

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

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

The AAM/CFO organization supports the mission of TTB by: providing accurate, timely, and useful financial information and guidance, and overseeing management programs such as facilities, acquisition/ procurement, training, strategic planning, human resources, emergency preparedness, and implementation of the President's Management Agenda. AAM/CFO provides administrative control over the use of appropriated funds to ensure that the Bureau uses funds economically and efficiently and only for authorized purposes; ensuring that obligations and expenditures do not exceed amounts authorized and available; identifying managerial problems, defining their limits, and directing the resources necessary to resolve them; and developing policy and providing direction to managers and operational planners at all levels on strategic planning issues and practices.

Assistant Administrator, Information Resource Chief Information Officer (CIO)

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

Office of Inspection (INS)

The INS provides coordination and management of bureau-wide and organizational segment reviews and internal investigations, to determine adherence to TTB and Treasury rules and regulations, and to ensure that Bureau programs are cost effective and in line with TTB and Treasury strategic plans also coordinates with the Office of the Inspector General and the Government Accountability Office on all of their reviews and/or audits of the Bureau's programs; and coordinates with the Office of the Inspector General on potential internal investigations.

Executive Liaison for Industry and State Matters

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

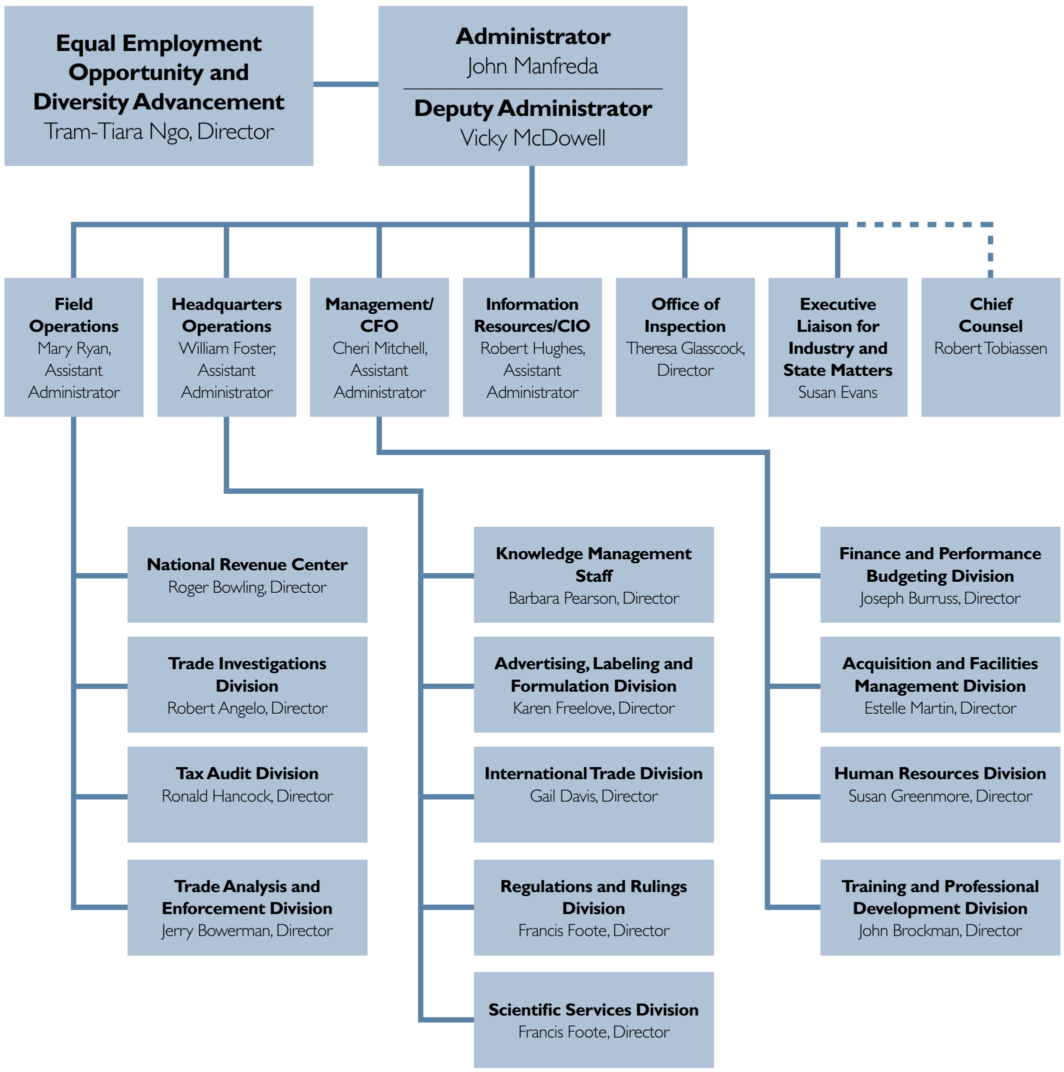
Chief Counsel (CC)

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

TTB Organization Chart

The Alcohol and Tobacco Tax and Trade Bureau

Bureau Organization



Part I

Management's Discussion and Analysis

Bureau Highlights

TTB Supports to World Wine Trade Group in Wine Labeling

On January 23, 2007, negotiations among the World Wine Trade Group (WWTG) governmental representatives culminated with the signing of an international trade agreement in wine, which involves the adoption of common labeling principles among the WWTG countries—Argentina, Canada, Chile, New Zealand, Australia, and the United States.

TTB supported the Office of the U.S. Trade Representative (USTR) in successfully brokering this agreement, even hosting international meetings online via a Web meeting service—an alternative that saved TTB and the WWTG participants thousands of dollars and many travel hours.

The Agreement allows the placement of four items of information (i.e., country of origin, product name, net contents, and alcohol content) anywhere on a wine label, allowing the consumer to see all of the information at the same time without having to turn the container.

To industry, this means that wine exporters may use the same label when shipping wine to any of the WWTG member countries. The industry is then saved the time and expense of having to redesign their labels for each individual market. With the group's global market share of wine exports exceeding a quarter of global exports, the savings achieved by this Agreement affords WWTG participants a competitive advantage as well as opportunities for further export growth.

The Agreement also benefits consumers who will be able to easily locate important items of information on the bottle in a single field of vision. Even at a glance, consumers will be able to better compare wines and brands.

TTB Meets IPv6 Mandate

The seemingly bottomless well of Internet addresses is running dry—at least under the existing protocol supporting the Internet today, Internet Protocol Version 4 (IPv4). In fact, within about two years, experts predict that we will have exhausted the supply of Internet Protocol (IP) addresses for the World Wide Web. But TTB, along with the entire Federal Government, is leading by example in shifting to the next generation of Internet Protocol in advance of this shortage.

Under the direction of the Office of Management and Budget (OMB), the Department of the Treasury and its bureaus are taking steps to transition their "network backbones" from IPv4 to IPv6 by June 30, 2008. TTB responded to this OMB mandate with alacrity and, in FY 2007, met the associated milestones to demonstrate readiness for IPv6 implementation ahead of schedule.

This transition is necessary, as the explosion of Internet use in the past 10 years has made the current Internet Protocol, or "language" computers use to transmit data over the Internet, inadequate to support the ever-growing demand for a piece of cyber real estate.

Under IPv4, which was developed in the 1970s, the supply of IP addresses is limited to four billion—far less than the approximately 6.6 billion needed to give a unique, globally routable location on the Internet to every person on Earth.

IPv6 provides the world with an almost unlimited number of available IP addresses and, in addition to other benefits such as enhanced mobile Internet connectivity features, will allow TTB network administrators to better manage our computers.

To meet the OMB mandate, TTB's Assistant Administrator Information Resources / Chief Information Officer (CIO) completely upgraded in FY 2007 all network equipment to be IPv6 capable at our 18 field offices, 2 laboratory facilities, the National Revenue Center in Cincinnati, and TTB Headquarters in D.C. The Office of the CIO completed this enormous undertaking in about six months, on schedule and on budget. With these upgrades, the backbone of our TTB network is capable of transmitting and receiving IPv6 traffic per the Federal mandate.

COLAs Online Use Soars

TTB Advertising, Labeling, and Formulation Division (ALFD) rolled out a major release of COLAs Online in 2007.

TTB initiated the COLAs Online version 3.1 project in October 2006 and worked for the better part of 2007 towards its successful completion.

Though the upgrade to the system was pushed into production with little fanfare, the industry will see vast improvements to functionality and usability. With this release, ALFD addressed some of the frequent issues, such as label image distortion and dimension problems when applicants upload files to the COLAs Online system. These and other enhancements should alleviate some of the common mistakes made by industry in submitting electronic applications (eApps).

The latest version of the COLAs Online electronic system enables our labeling specialists to pull several eApps at once from the queue for processing. If an industry member submits 10 applications, our specialist can select all at one time to ensure a timely, but thorough, review. This new functionality also engenders consistency in the evaluation and processing of label applications.

Additional system changes were designed to keep applicants from submitting incorrect or inappropriate information in certain application fields. For example, we have added a warning message that prevents users from entering information in the *Fanciful Name* field of a wine eApp. This warning ensures that applicants do not mistakenly enter a grape varietal or appellation in this field.

Of the more than 125,000 COLA applications filed in FY 2007, nearly 64,000 were electronically submitted, compared to 42,759 in FY 2006. TTB now has a 51 percent electronic submission rate, an increase of 13 percent from last fiscal year, for our COLAs Online electronic operation.

TTB Passes Disaster Response Test

A normal Monday took a turn for the worse when, on July 9, 2007, a water pipe valve burst in the ceiling between the fourth and fifth floors at TTB Headquarters offices in Washington, D.C., causing flooding on portions of all three floors occupied by TTB staff, including the TTB Headquarters Data Center that houses 50 percent of TTB's critical office automation IT equipment.

Employees on the third floor raised the alarm as water rushed down the walls and hallway next to the TTB Information Resource Center and poured into perimeter offices. Sensors in the data center on the second floor immediately alerted our Office of the Chief Information Officer (OCIO) of the encroaching water, even before staff members reported that water from the floors above had penetrated the ceiling.

OCIO staff worked tirelessly throughout this crisis. Within hours, we brought our network back online by rerouting through the data center located at our National Revenue Center in Cincinnati. Our operations didn't falter, as most employees reported to work remotely using our secure external portal from home to access the TTB network. TTB provided frequent updates to its public Web site, TTB.gov, informing its employees and the industry of the building's status.

By working with our flood restoration contractors, we were able to return the office to operating condition within 72 hours. Employees whose offices were affected by the flood were temporarily relocated to new spaces, with loaned computers and redirected phone lines in place when they arrived back to work.

TTB Updates IT Infrastructure

The role of the OCIO's IT Infrastructure Team is twofold—improve technical capabilities to solve business problems and ensure that the Bureau's infrastructure can securely support mission operations.

The durability of the TTB IT infrastructure and associated disaster recovery procedures was put to the test in FY 2007, in both controlled scenarios and real world events, and our systems and staff succeeded in exceptional fashion.

The OCIO verified through two independent network penetration tests that our security measures are effective and resistant to potential intruders. This sort of proven reliability and network performance would not be possible with an outdated IT infrastructure.

The OCIO also finished a complete hardware and software upgrade of the Citrix system in FY 2007. Citrix allows employees to use all TTB applications from anywhere in the world, and also serves as the platform for the TTB remote network access solution.

The importance of the Citrix upgrade and the remote access capability was demonstrated during the flooding of the

TTB Headquarters in July 2007. When TTB staff was forced to leave their offices immediately, they used the upgraded Citrix application to work securely from home for the duration of the recovery effort. This capability was the key to maintaining 100 percent TTB productivity during the headquarters closure.

TTB Takes Proactive Approach to Informing Industry

In June 2007, TTB launched a new e-mail subscription service, TTB Updates, which provides TTB.gov visitors the option of subscribing to more than 70 Web pages for e-mail alerts when content changes.

The envelope icon on the subscription pages directs users to a Quick Subscribe page, which allows them to create a profile by checking the box next to the pages that are most relevant to their work. Users can also choose to bundle e-mail notices, so that alerts are compiled and sent weekly or monthly, rather than daily. Subscribers may opt out at any time through a simple online process.

TTB Updates also provides the TTB Web Team with another means of reaching the public and the industry when significant content is added to our site. For instance, we sent a bulletin to all subscribers when TTB published for comment the notice of proposed rulemaking on serving facts labeling for alcohol beverages.

Customers enthusiastically embraced this innovative approach to information dissemination. Within four months, 2,127 visitors subscribed to e-mail updates for TTB.gov. By September 2007, our total subscriptions reached 23,433, with an average customer subscribing to about 11 pages. As word spreads among our Web users, we expect this service to become a staple of industry members' TTB compliance strategy.

TTB Tightens IT Security

Following the theft of a Veterans Affairs laptop, which resulted in the loss of 26.5 million veterans' personal information, the protection of sensitive data became a high-visibility priority for all Federal agencies. To minimize the risk of such a breach to TTB personnel and our regulated industry members, our OCIO encrypted the hard drives of all TTB employees.

In response to a number of new mandated security upgrades, the OCIO deployed full hard drive encryption in May 2007, to protect sensitive data stored on laptops and other devices. This encryption process provides the most aggressive level of protection for personally identifiable information (PII), or information that identifies individuals directly or by reference. Examples of PII include direct references to an individual such as a name, address, Social Security number, and e-mail address.

TTB also encrypted auxiliary devices used by our managers such as PDAs, or personal digital assistants, to place an additional layer of security over TTB's data. Whether on travel or just catching up on e-mails on the commuter train, employees are sometimes compelled to transport data outside the secure walls of the Bureau. By encrypting portable media devices, TTB compensates for the protections offered by the physical security controls in the office environment.

Further, employees accessing data on the TTB network from home or other remote location are now required to use an RSA device in addition to their TTB login and password. An RSA device, which the OCIO issued to all employees in FY 2007, provides a two factor authentication process for remote access.

The device cycles through random six-digit passwords every 60 seconds, adding an externally generated password to the log-in process that virtually eliminates the threat of unauthorized users gaining access to our network systems. The OCIO also installed a "time-out" function for remote access and mobile devices that requires a user to log in again after 30 minutes of inactivity.

Finally, to increase awareness and to tighten the controls applied to sensitive data, TTB's OCIO updated and published for employees all relevant policies and procedures related to the protection of PII. TTB also conducted training for all personnel on the importance of protecting PII, the methods of protecting PII, and the potential penalties for losing sensitive information.

TTB Managers Take Internal Controls Training

An effective system of management controls enables an organization to identify and correct problems within its ranks—before they snowball into a front page news story. Keeping TTB managers informed and aware of their responsibility to implement internal controls ensures that our programs and operations stand up to scrutiny.

Like all Federal bureaus, TTB must uphold the laws and regulations governing internal controls under OMB Circular A-123. These laws include the Federal Managers' Financial Integrity Act, the Chief Financial Officers Act, and the Sarbanes-Oxley Act. OMB Circular A-123 identifies the specific requirements for assessing and reporting on the internal (management) controls established by an organization to protect programs and resources from waste, fraud, and mismanagement.

To educate our management staff on their responsibilities under these statutes, TTB designed a Web-based training module that explained the fundamental internal controls concepts and provided guidance on Federal circulars and legislation under OMB Circular A-123. The training, completed by all TTB managers in September 2007, also provided practical application of these concepts to TTB's operating environment, including controls over purchase and travel cards, and property management.

Examples of internal control techniques described in the training include proper documentation and recordkeeping, responsibilities as an authorizing official, and the separation of duties. The training also gave practical tips on security precautions, such as establishing better alphanumerical passwords to prevent system "break-ins."

By following the prescribed system of management controls, the Bureau can be reasonably assured that its decisions are based on reliable and complete information, and our actions do not violate the public trust.

ISO 17025 Accreditation of TTB Laboratories Galvanizes World-Class Reputation

For two years, the Scientific Services Division (SSD) has actively sought accreditation by the International Organization for Standardization (ISO) in order to seal its already stellar reputation for performing world-class science in the fields of alcohol and tobacco.

In the fall of 2007, two SSD laboratories—the Beverage Alcohol Laboratory (BAL) and the Compliance Laboratory (CL)—achieved this goal by receiving ISO 17025 accreditation from the American Association for Laboratory Accreditation (A2LA), an accreditation body in the United States.

ISO is a non-governmental organization that promotes the development of standardized methods to facilitate the international exchange of goods and services. ISO accreditation reduces inefficiencies and puts mechanisms in place for continuous improvement of laboratory processes and procedures.

Through accreditation, SSD achieves third-party recognition of its quality results, which promotes acknowledgement and respect for our laboratories' technical competence by industry and other agencies, both nationally and internationally.

To achieve ISO accreditation, SSD had to document every laboratory method, protocol, and process. Several documents and processes needed updating to meet these requirements. Our chemists also had to demonstrate proficiency in each of the methods used for analysis that fall within the scope of our accreditation.

Though TTB has always used validated methods for its routine laboratory analysis, such as alcohol proof and heavy metals testing, with ISO accreditation our labs must maintain extensive records that show they adhere to the proper process in performing mission-critical lab work on a day to day basis.

Now that accreditation has been attained, the lab's next challenge is to maintain its accreditation through vigilance and training. In the next year, SSD's Quality Manager will hold ongoing training for chemists and conduct semi-annual internal audits. SSD plans to seek accreditation of its tobacco program in FY 2008. The BAL and CL also will expand the scope of their accreditation beyond the routine regulatory methods to include methods still in development, including allergen testing.

TTB Deploys Second Phase of EFAPS Project

In FY 2007, TTB completed the second phase of the Electronic Forms Acceptance and Processing System (EFAPS) project, which addresses the TTB-identified need to automate tax and operational data form filing procedures to replace manual data capture.

The second phase of EFAPS includes the functionality to support the automated processing of Pay.gov submissions of Monthly Operational Reports and Federal excise tax (FET) payments into their respective systems—the Integrated Revenue Information System (IRIS) and the Federal Excise Tax system.

Not only was this project delivered on budget and with all critical capabilities, it was designed to be the centerpiece of all future electronic filing initiatives.

EFAPS is TTB's first end-to-end electronic filing solution and was the largest and most complex IT initiative ever undertaken at TTB. With the system now fully deployed, NRC staff members no longer perform manual entry of FET return information for payments and forms filed through Pay.gov. Rather than typing in monthly report information, the system automatically uploads the reports to TTB databases, thereby eliminating data entry errors and streamlining the workflow.

"As more industry members use Pay.gov, EFAPS allows NRC employees to focus on resolving taxpayer issues, and not worry about whether the data was entered correctly," Vivian Hunsley, Assistant CIO for Software Development and Maintenance, said. "This helps us respond to our customers in a timely manner."

The efficiency and savings that result from EFAPS and from this upgrade to EFAPS are very impressive. Before this upgrade, EFAPS processed about 1,500 tax filings and payments each month without manual intervention. With this EFAPS release, the NRC receives an additional 1,000 operational reports each month without manual intervention. This jump in productivity is no small feat considering that some of the report forms have hundreds of fields. Further, at an estimated cost of $79 to process a single report, the savings from this upgrade to TTB are approximately $948,000 per year.

COLAs Online eNews Rates Highly with Subscribers

As COLAs Online gained popularity with industry in FY 2007, the need for an ongoing dialogue with our labeling applicants became apparent. Working in partnership with TTB's Executive Liaison for Industry and State Matters, ALFD began in June 2007 to publish COLAs Online eNews, a monthly electronic newsletter that caters to the users of our Web-based label approval system.

Though we approach the development and enhancement of COLAs Online with the users in mind, we know that they may experience difficulties with proper formatting and uploading of image files—oftentimes leading to the return of electronic label applications for correction and delays in processing.

With the COLAs Online eNews electronic newsletter, we talk about timely system issues that will help registered users understand and better use the COLAs Online electronic filing system.

Some of the topics we cover each month are Frequently Asked Questions (FAQs) about electronic filing, tips for obtaining faster label approval when using COLAs Online, and information about system updates. We also include a 'How To' section as well as definitions of key terms used in our electronic system in our 'What Does It Mean?' column.

We took the frenetic pace of daily life into consideration when we decided to offer two options for reading COLAs Online eNews—on the Web or via e-mail. For those who frequent our site, we publish the newsletter online at TTB.gov. For everyone else, they may choose to receive the latest edition of COLAs Online eNews each month via e-mail. By subscribing to TTB Updates, an e-mail subscription service that alerts users to content updates on our Web site, readers may receive the newsletter, in full, straight to their inbox.

Performance Summary

Collect the Revenue

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

The investments in the Collect the Revenue activity resulted in several accomplishments during FY 2007:

- TTB collected $14.7 billion in excise taxes, interest, and other revenues from alcohol, tobacco, firearms, and ammunition industries from approximately 8,500 excise taxpayers holding permits.

- TTB expanded the e-filing program to allow all excise taxpayers to file and pay taxes and file monthly operational reports electronically through the Pay.Gov system. In FY 2007, 98 percent of TTB's tax receipts were collected electronically.

- Voluntary Compliance: In terms of the number of compliant industry members, 75 percent filed payments on or before the scheduled due date.

- TTB processed $459 million in cover-over payments to Puerto Rico and $8 million to the Virgin Islands. Federal excise taxes collected on rum produced in Puerto Rico and the Virgin Islands and subsequently imported into the United States are "covered-over" (or paid into) the treasuries of Puerto Rico and the Virgin Islands.

- TTB processed $336 million in drawback claims. Under current law, persons who use non-beverage alcohol in the manufacture of medicines, food products, flavors, extracts, or perfume and other non-potable products may be eligible to claim drawback of excise taxes paid on distilled spirits used in their products.

- As of September 30, 2007, the Tax Audit Division (TAD) completed 151 audits, and collected about $7.7 million of potential tax, penalty, and interest.

- TAD initiated 17 adverse action cases that resulted in recommendations for 14 warning letters and 3 cases recommending either offers in compromise and/or permit suspensions.

- TTB Scientific Services Division (SSD) received their accreditation from the International Organization for Standardization (ISO). ISO accreditation promotes recognition and respect for our laboratories' technical competence by industry and other agencies, both nationally and internationally.

- TTB laboratories analyzed 2,000 beverage alcohol samples for product integrity, pre-import analysis, and 5010-tax credit determination. TTB also analyzed 152 tobacco product samples for tax classification. The Non-beverage Products Laboratory completed 7,300 non-beverage drawback formulas and 1,623 specially denatured alcohol formulas. TTB laboratories review formulations or analyze alcohol and tobacco products to ensure compliance with TTB tax and classification regulations.

Protect the Public

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

The investments in the Protect the Public activity resulted in several achievements during FY 2007, including:

- TTB approved 125,117 COLA applications; 22 percent were either rejected, returned for correction, withdrawn, expired, or surrendered. Fifty-one percent of the 125,117 COLA applications were received through COLAs Online.

- TTB issued 4,600 original and 22,116 amended permits. TTB issues original and amended permits to persons who are engaged in the alcohol and tobacco industries. Illicit activity in these industries has the potential to be highly lucrative so it is crucial that organized crime and terrorists are kept out.

- TTB played a significant role assisting in the signing of a labeling agreement with the World Wine Trade Group (WWTG), which was signed on January 23, 2007. This agreement facilitates the export trade in wine from the United States to WWTG countries. These regulatory changes will provide flexibility in alcohol beverage labeling, and will get TTB's wine labeling regulations in conformance with the WWTG agreement.

- TTB restructured the Tobacco Enforcement Division into the new Trade Analysis and Enforcement Division (TAED) during March 2007. TAED administers our forfeiture program, which has already resulted in contributions to the Treasury asset forfeiture office.

- In FY 2007, Trade Investigations Division (TID) investigators initiated more than 1,350 field investigations.

- Application Investigations: TID initiated more than 590 application investigations to verify that the applicants were qualified and not prohibited from engaging in business activity, were likely to comply with Federal laws and regulations, and to explain to applicants the various requirements of conducting business operations. As a result of these investigations, 45 applications were withdrawn or abandoned, 8 were recommended for denial, and 59 applications were approved after significant changes. TTB approved the remaining applications with little or no corrections needed.

- Revenue Investigations: TID initiated 224 revenue related investigations, many of which involved small producers, tobacco importers, and claim verifications that did not fall under TAD's operating plan. TID investigators verified over $48 million dollars in claims with $16,000 in increasing adjustments and $215,000 in decreasing adjustments being recommended. TID also verified more than $37 million dollars in tax payments, identifying over $1.9 million dollars in additional tax liabilities and $45,000 in overpayments.

Financial Summary

Federal Excise Tax Collections

TTB collects excise taxes from the alcohol, tobacco, firearms, and ammunition industries. In addition, we collect Special Occupational Tax (SOT) from certain alcohol and tobacco businesses. During FY 2007, TTB collected nearly $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 firearms and ammunition excise taxes (FAET) are an exception. This revenue is remitted to the Fish and Wildlife Restoration Fund under provisions of the Pittman-Robertson Act of 1937.

FY 2007 Excise Tax Collections

Alcohol	$7,232,138,000
Tobacco	$7,194,081,000
FAET	$287,835,000
SOT	$2,808,000
Other	$32,000
Total	**$14,716,894,000**

Note: Recent law suspended SOT on most alcohol taxpayers, effective July 2, 2005. The law repealed SOT for all alcohol taxpayers effective July 1, 2008. However, the SOT relating to tobacco permittees (manufacturers, importers, and export warehouses) remained intact.

Refunds and Other Payments

During FY 2007, TTB issued $817,218,000 in refunds, cover-over payments, and drawback payments.

Alcohol and Tobacco Excise Tax Refunds	$13,208,000
Cover-over Payments — Puerto Rico	$459,278,000
Cover-over Payments — Virgin Islands	$8,054,000
Drawbacks on MNBP Claims	$335,706,000
Interest and Other Payments	$972,000
Total	**$817,218,000**

Cover-over Payments

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

Drawback Payments

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

During FY 2007, drawback payments totaled $336 million. In the case of distilled spirits, on which the tax has been paid or determined, a drawback is allowed on each proof gallon at the rate of $1 less than the rate at which the distilled spirits tax had been paid or determined. The refund is due upon the claimant providing evidence that the distilled spirits on which the tax has been paid or determined is unfit for beverage purposes, or was used in the manufacture of medicines, medicinal preparations, food products, flavors, flavoring extracts, or perfume. The claimant must submit a product formula to the TTB laboratory for analysis and approval of the non-beverage claim.

FY 2007 Bureau Budget:

Direct Appropriations

The FY 2007 budget for salaries and expenses is $ 90,618,461. The authorized full time equivalent (FTE) staffing level is 544. The Bureau obligated 99.7 percent of its FY 2007 budget.

Offsetting Collections and Reimbursable Accounts

The Bureau was allocated $2.4 million and 15 FTEs for FY 2007 to cover the operating costs of the Puerto Rico office. The actual reported costs were $2.4 million, which was offset against the cover-over payments made by the United States to Puerto Rico. All operating costs associated with the Puerto Rico office are paid from the cover-over taxes collected in the United States on products originating in Puerto Rico and the Virgin Islands.

In Puerto Rico, TTB conducts annual audit and investigations of industry members regarding the collection of revenue, application processing, and product integrity. Revenue inspections are used to conduct tax examinations on major producers of alcohol and tobacco. This is critical due to the requirements of verifying tax payments under the Internal Revenue Code and subsequent accountability of all cover-over amounts due to the Puerto Rican government.

All tobacco products manufacturers, distilled spirits producers/processors, wineries, wholesalers, importers, MNBP claimants, and specially denatured alcohol permit applicants are subject to a qualification inspection under the Code of Federal Regulations and the Federal Alcohol Administration (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 law to produce annual audited financial statements. TTB's financial activities are an integral part of the information reported on by the Treasury Department.

The independent auditor's report expressed an unqualified opinion on the Treasury Department's FY 2007 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 for 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 a useful tool in understanding the financial operations of TTB.

Although these statements are not independently audited, the information should be viewed as reliable and accurate information on the Bureau's financial operations.

Federal Managers' Financial Integrity Act

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

For FY 2007, TTB did not have any reportable conditions related to internal control and no reportable instances of non-compliance with laws and regulations that could have a direct and material effect on our financial statements.

Challenges

This section is reserved to focus on the agency's most serious management and performance challenges, as identified by the Inspector General's Office. For FY 2007, TTB received no reported serious performance challenges or related audit issues from Treasury's Inspector General.

Part II

Performance Goals, Objectives, and Results

Performance Overview

TTB is showing notable improvements in performance scores. For FY 2007, 90 percent of performance measures met or exceeded performance targets (which includes one baseline measure).

Performance Measure Status

Performance Targets Met	8
Performance Targets Not Met	1
Baseline	1
Total Performance Measures	**10**

Performance Measures

The Bureau continues to collect the $14.7 billion in Federal excise taxes in a highly efficient manner, and is committed to helping industry members comply with alcohol and tobacco laws and regulations. TTB met 9 of its 10 performance measures, indicating that the Bureau is meeting its performance goals and showing continued improvements in performance scores. The performance measure not met was the "Percentage of COLA applications processed within nine calendar days of receipt." This measure was difficult to achieve because the complexity and volume of this type of workload, which is driven from industry members, has continued to increase for several years. Since 1999, COLA applications have risen over 84 percent, while the available staff dedicated to this operation has remained constant. Also, the complexity of the review process has increased significantly since the 9-day goal was put in place in the early 1990s.

The Bureau captures performance information on program operations on a routine basis for internal management purposes. TTB continues to assess performance for each goal and new performance measures are forthcoming.

The following is a comparison of actual performance-to-performance goal target levels for the 10 measures that TTB tracked in FY 2007.

Activity: Collect the Revenue

Performance Measure: Resources as a percentage of revenue.

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

Type of Measure: Efficiency

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

FY 2004 Actual	FY 2005 Actual	FY 2006 Actual	FY 2007		FY 2008 Proposed
			FY Plan	FY Actual	
97.3%	98%	98%	98%	98%	98%

FY 2007 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 2004 Actual	FY 2005 Actual	FY 2006 Actual	FY 2007		FY 2008 Proposed
			FY Plan	FY Actual	
81.2%	86.3%	87.2%	86%	86.3%	87%

FY 2007 Performance: Target Met

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

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

Type of Measure: Outcome

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

Note: TTB is in the process of reviewing all its performance measures to assess what makes the best business sense in terms of capturing and measuring data that is useful to its operations. This measure is under review for a possible change to the number of tax payments rather than the number of industry members. TTB's National Revenue Center (NRC) in Cincinnati, Ohio reviews delinquent tax payments on a regular basis to assess delinquent tax payers, under-payers, and non-filers. It is likely that its managers will recommend developing a measure that captures all three categories.

FY 2004 Actual	FY 2005 Actual	FY 2006 Actual	FY 2007		FY 2008 Proposed
			FY Plan	FY Actual	
63%	70%	75.95%	74%	75%	75%

FY 2007 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).

Note: TTB is in the process of reviewing its full-costing methodology. Based on significant changes in methodology, the Department has agreed that the unit cost of processing an excise tax return needs a new baseline in FY 2008.

FY 2004 Actual	FY 2005 Actual	FY 2006 Actual	FY 2007		FY 2008 Proposed
			FY Plan	FY Actual	
N/A	N/A	$76	$76	$61	Baseline

FY 2007 Performance: Target Met

Performance Measure: Resources as a percentage of revenue.

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

Type of Measure: Efficiency

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

Note: TTB reports the amount of Collect the Revenue resources as a percentage of total excise tax revenue collected. This measure has been reported in this manner since a Collect the Revenue Program Assessment Rating Tool (PART) study was performed in FY 2005. If the numerator and denominator were reversed, this measure would show that TTB collected $321 of revenue for every dollar of "Collect the Revenue" administrative cost.

FY 2004 Actual	FY 2005 Actual	FY 2006 Actual	FY 2007		FY 2008 Proposed
			FY Plan	FY Actual	
0.27%	0.37%	0.31%	0.34%	0.31%	0.34%

FY 2007 Performance: Target Met

Activity: Protect the Public

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

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

Type of Measure: Outcome

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

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

FY 2004 Actual	FY 2005 Actual	FY 2006 Actual	FY 2007		FY 2008 Proposed
			FY Plan	FY Actual	
37%	82%	93%	12%	16%	74%

FY 2007 Performance: Target Met

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

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

Type of Measure: Efficiency

Source: Data are captured through the COLAs Online database system. TTB generates periodic statistical reports, searches, and queries.

Note: This measure will be discontinued in FY 2008 as TTB incorporates new COLA measures. Also, this measure has lost its apples-to-apples comparisons as complexity in industry marketing has changed significantly since the measure was developed in the early 1990s.

FY 2004 Actual	FY 2005 Actual	FY 2006 Actual	FY 2007		FY 2008 Proposed
			FY Plan	FY Actual	
23%	50%	44%	45%	42%	Discontinued

FY 2007 Performance: Target Not Met

Performance Measure: Percentage of electronically filed COLA applications.

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

Type of Measure: Efficiency

Source: Data are captured through the COLAs Online database system. TTB generates periodic statistical reports, searches, and queries.

FY 2004 Actual	FY 2005 Actual	FY 2006 Actual	FY 2007		FY 2008 Proposed
			FY Plan	FY Actual	
10%	25%	38%	47%	51%	48%

FY 2007 Performance: Target Met

Performance Measure: Percentageof 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 NRC within 60 days.

Type of Measure: Efficiency

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

FY 2004 Actual	FY 2005 Actual	FY 2006 Actual	FY 2007		FY 2008 Proposed
			FY Plan	FY Actual	
–	81%	86%	80%	85.09%	80%

FY 2007 Performance: Target Met

Program Assessment Rating Tool

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

How TTB Uses PART Evaluations

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

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

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

PART Evaluation Criteria

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

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

PART Program Name

Collect the Revenue

Rating: Effective

Major Findings/Recommendations

Rec. 1: Develop baseline for annual performance measures.

Rec. 2: 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.

Rec. 3: Develop a baseline to compare the incremental cost and net benefits of regulation.

Actions Taken, Planned, or Underway

Ref. 1: This required action was complete in 2007.

Ref. 2: TTB uses the Bureau of Public Debt (BPD) Administrative Resource Center (ARC) accounting system, which allows for the allocation and tracking of distributed funds. This required action is now complete.

Ref. 3: TTB performed a cost-benefit study of economic impacts based on incremental time savings, which are tied to performance measures. This required action is complete.

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

PART Program Name

Protect the Public

(a.k.a., FY 2002 Alcohol, Tobacco, and Firearms Consumer Product Safety PART)

Rating: Adequate

Major Findings/Recommendations

Rec. 1: Establish clear guidelines and procedures to ensure that goals are very specific.

Rec. 2: Establish written guidelines and supporting documentation for all aspects of the program.

Rec. 3: Refine performance measures to more accurately reflect the goals and achievements of the program.

Rec. 4: Develop baseline for annual performance measures.

Actions Taken, Planned, or Underway

Ref. 1: This action has been completed.

Ref. 2: In FY 2007, TTB continued to establish written guidelines and has received supporting documentation for all aspects of the program.

Ref 3: In FY 2007, TTB refined the performance measures to reflect the more accurately goals and achievements of the program.

Ref 4: In FY 2007, TTB developed and established new baselines for annual performance measures.

President's Management Agenda

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

The five initiatives are:

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

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

The scorecard below shows the status for TTB at the end of FY 2007 based on the Bureau's self-assessment:

PMA Scorecard Based on TTB Self-Assessment for FY 2007

Initiative	Status
Human Capital	Green
Competitive Sourcing	Green
Financial Performance	Green
E-Government	Green
Budget-Performance Integration	Green

Green for Successful
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 outsourced functions.

In FY 2007, TTB completed the negotiation of its first collective bargaining agreement with the National Treasury Employees Union (NTEU) which, upon Agency Head review, will remain in effect for a four year period.

TTB also redesigned its performance management program for General Schedule employees to better align individual employee commitments with the Bureau strategic goals. New performance plans were developed for all employees incorporating a combination of standard competencies for which all TTB employees will be evaluated and at least one individual mission commitment that is aligned with one or more of the Bureau strategic goals. The new performance plans were designed and developed by a joint workgroup consisting of employees, union representatives, and supervisors and managers. In addition, during FY 2007, TTB deployed an automated performance management system to assist managers in the administration of the performance management program. All supervisors were provided training on the use of the system.

TTB issued a series of human resources policies during FY 2007. These included the Leave Transfer Program, Performance Management for General Schedule Employees, Employee Disciplinary, and Adverse Actions Based on Employee Misconduct, Actions Based on Unacceptable Performance, and Employee Exit Procedure.

TTB continues to exceed the Treasury hiring goal of 45 days with an overall average of 37 days. The Merit Systems Protection Board (MSPB) Annual Survey was administered to the TTB workforce during the fourth quarter FY 2007. TTB's response rate to the survey was 77 percent, which was one of the highest response rates within the Department of the Treasury.

TTB had an impressive 85 percent employee response rate on the latest Office of Personnel Management (OPM) Federal Human Capital Survey (FHCS) and was ranked 10th out of 222 agency subcomponents in the 2007 Rankings of the Best Places to Work by the Partnership for Public Service. Additionally, TTB ranked second, third, fourth, and fourth out of the 12 Treasury Bureaus based on the Human Capital Assessment and Accountability Framework (HCAAF) indices of Job Satisfaction, Talent Management, Results Oriented Performance Culture, and Leadership and Knowledge Management, respectively.

Strategic Management of Equal Employment Opportunity and Diversity Advancement

Successful

During FY 2007, under the guidance of the Bureau's Office of Equal Opportunity & Diversity Advancement:

1. TTB developed Alternative Dispute Resolution (ADR) Program Order, which provides an option for resolving employment disputes raised primarily during the pre-complaint/counseling stage of the EEO complaint process.

2. TTB developed Reasonable Accommodations (RA) Order, which establishes written procedures explaining how our Bureau will process reasonable accommodation requests from applicants and employees.

3. TTB developed a five-year Diversity Strategic Plan, which provides the objectives and specific initiatives intended to assist our Bureau in meeting current as well as new challenges in understanding and accepting diversity. This plan will guide our organization in achieving our pledge to promoting a work environment that fosters personal growth and organizational accomplishments.

4. TTB provided refresher training in EEO/ Diversity/Sexual Harassment Prevention to managers and supervisors. The focus of the training was on Generational Diversity in the Workplace. It is important for our managers/supervisors to understand each generation, not only to determine how best to work with them, but how the managers/supervisors' own generational bias may be getting in the way of their success.

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

Strategic Management of Training and Professional Development

Successful

In the area of employee training and development, TTB focused on establishing an Emerging Leaders Program to provide supervisory, management, and leadership courses for its employees. The basic premise of the program is to provide basic supervisory techniques and theories to non- supervisors, management skills to first-line supervisors, and leadership principles to second-level supervisors and officials. TTB uses Management Development Centers hosted by the Office of Personnel Management, the Center for Creative Leadership, and Brookings to provide this training. In FY 2007, TTB refocused the Bureau's training for new supervisors to help them develop the necessary tools to successfully accomplish organizational objectives and understand human resources laws and regulations.

The TTB Office of Training and Professional Development worked with program managers to develop and deliver internal courses such as Courtroom Testimony and Diversion Training. TTB also partnered with other bureaus to design, develop, and implement the new Treasury Learning Management System. This meant that TTB ended its training service agreement with another bureau and now handles all training operations internally.

Improved Financial Performance

Successful

No unresolved internal control material weaknesses or reportable conditions were found. TTB has complied with all Departmental annual audit requirements, including OMB Circular A-123 reviews.

Cash accounts are reconciled within 45 days after the end of an accounting period. TTB has achieved a prompt payment timeliness rate of 99 percent or more and also achieved a 99 percent or more compliance rate for electronic funds transfer. TTB also met established due dates for required Financial Management Service reports.

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

Expanded Electronic Government

Successful

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

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

TTB's disaster recovery capabilities have been fully tested and results indicated that recovery capabilities are operational. Further, 100 percent of IT systems have certification and accreditation. The Inspector General verifies that there is a Department-wide IT security remediation process.

Budget and Performance Integration

Successful

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

TTB worked with a contractor on a cost management project 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.

Also, TTB completely reworked its Reporting Category Code Listing and Definitions for its Oracle Financials system to better track financial information as it relates to financial reporting. The system also tracks organizational performance measures consistent with the TTB Strategic Plan and individual division strategic plans.

This work will allow TTB to identify high-level activity costs and how it relates to performance, including determining the cost/benefit of the work performed under various performance measures.

Part III

Financial Results, Position, and Condition

Message from the Chief Financial Officer

I am pleased to present TTB's fiscal year 2007 Performance and Accountability Report, which provides an accounting of our operations and organizational performance.

Human capital management remains the highest priority at the bureau, along with fostering an environment of performance excellence and leadership continuity. The Pay Demonstration Project has allowed the bureau to recruit, develop, and retain high-caliber employees in mission critical positions, to ensure a workforce that is fully capable of meeting its responsibilities.

TTB is a highly efficient bureau, dedicating minimal resources to administrative requirements. We outsource our financial and administrative services to the Bureau of Public Debt Administrative Resource Center, and we benefit from those high quality services at relatively low costs. Also, we continue to outsource with the private sector for information technology services. These outsourcing arrangements allow management to remain focused on its core mission, and lets the administrative operations operate in a relatively transparent manner. We plan to continue to foster both of these long-term partnerships.

During FY 2007, we began with an ambitious financial agenda to achieve new and better levels of financial performance with stronger internal controls, a new accounting classification structure, strengthening of accounting and business practices, implementation of a new asset management system, and better use of financial data.

Our focus on education and implementation of stronger internal controls included the implementation of a new mandatory training program for all of our bureau managers and supervisors. This effort reinforced our commitment to promote and encourage an agency culture that emphasizes the importance of integrity and ethical values, with a strong commitment to sound and effective internal controls.

We developed a new account code structure that links our budget activities to strategic goals, major lines of business, specific programs, and project activities. This new coding scheme will provide a more succinct alignment of costs with our budget activities, while providing insight to program managers as to the cost of cross-cutting activities.

Our new asset management system was implemented and provides a complete accountability over our assets. We also continued to review financial operations and related business processes to identify areas for improved efficiency, financial and performance data integration, and internal controls to ensure unmatched reliability in financial activities. New internal control requirements for publically traded companies contained in the Sarbanes-Oxley Act of 2002, have paved the way for the Federal Government to also strengthen its internal control environment.

Contributing to these improvements has been our OMB Circular A -123 financial reporting assurance process and the resulting changes that managers have implemented to improve the integrity of our financial reporting. Based on our evaluation, the bureau can provide reasonable assurance that management internal controls have been operating effectively with no material weaknesses found in the design or operation of the internal controls over its revenue collections, while providing integrity of our financial reporting.

An activity based costing effort was launched at the bureau and this effort determined that the bureau needed to recover additional program and overhead costs in support of the Puerto Rico cover over program. This study provided a standard cost module that can be applied on a consistent basis in subsequent years to ensure the accuracy and reliability of that recovery.

We take pride in meeting our financial management improvement goals, and we take our commitment to sound agency performance results and providing taxpayer value seriously. As always, exceptional business practices require meeting the challenges that lie ahead. These challenges are still considerable, but we remain committed to using financial and performance information to find new ways to improve accountability, focus on results, and make sound financial decisions.

Cheri D. Mitchell

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

Budget Highlights by Fund Account

Salaries and Expenses

The FY 2007 TTB budget of $93,327,000 consists of direct appropriations of $90,618,000 and actual offsetting collections of $2,709,000 in reimbursable funding. The budget authorizes the full time equivalent (FTE) staffing level at 544 direct FTE and 15 reimbursable FTE.

The budgeted amount maintains a program level consistent with the current level of effort necessary to support TTB's responsibility for revenue collection and enforcement of laws and regulations governing alcohol and tobacco commodities. The Bureau obligated and/or expended nearly all of its FY 2007 direct appropriations, roughly 99.7 percent.

FY 2007 Salaries and Expenses	
Appropriations (Public Law 110-5)	$90,618,000

In addition to the annual appropriations, the bureau recovered reimbursable funding of $2,709,000 during the year. Those funds originated from multiple sources. They were the result of recoveries from the operation of the Puerto Rico Cover-Over Program and other enforcement activities in Puerto Rico; included reimbursable funding from lab services performed to support criminal investigations being conducted at ATFE; and recovery from technical support services provided to the Office of Technical Assistance, U.S. Treasury Departmental Offices.

Also during FY 2007, an additional $130,000 from FY 2006 unobligated available balances was used to cover security requirements for Homeland Security Presidential Directive 12 (HSPD-12).

FY 2007 Salaries and Expenses	
Reprogramming	$130,000

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

This recovery was the primary source of reimbursable funding during FY 2007. The actual offsetting collections from the Puerto Rico cover over program and other enforcement activities was $2.4 million.

All costs associated with the functioning and support of the Puerto Rico office are paid from the "cover-over," which is offset from cover-over taxes collected in the United States on products originating in Puerto Rico (Cover Over – $459 million) and the Virgin Islands (Cover Over – $8 million).

In Puerto Rico, TTB conducts annual audits and investigations of industry members regarding the collection of revenue, application processing, and product integrity. Revenue inspections are used to conduct tax examinations on major producers of alcohol and tobacco. This is critical due to the 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 claimants, and specially denatured alcohol permit applicants are subject to a qualification inspection under the IRC.

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

Explanation of Budget Activities by Mission

Salaries and Expenses:

Collect the Revenue

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

TTB is charged with collecting the alcohol, tobacco, firearms, and ammunition excise taxes. The FY 2007 revenue tax collections reached nearly $15 billion. Taxes collected by TTB are remitted to the Department of the Treasury General Fund. The firearms and ammunition excise taxes are an exception, and are remitted to the Fish and Wildlife Restoration Fund.

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

Protect the Public

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

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

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

Systems and Controls

Introduction

During FY 2007, TTB contracted with the Bureau of Public Debt's (BPD) Administrative Resource Center (ARC) to handle its administrative, human resources, and financial functions.

Accounting Systems and Controls

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

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

Federal Managers' Financial Integrity Act of 1982

The FMFIA requires Federal agencies to conduct ongoing evaluations of the systems of internal accounting and administrative control. Annually, TTB must report to the President all material weaknesses found through these evaluations.

The FMFIA also requires the heads of agencies to provide the President with yearly assurance that obligations and costs are in compliance with applicable laws; that funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and revenues and expenditures are properly recorded and accounted for.

To provide this report and assurance to the President, the Secretary of the Treasury depends upon information from component heads regarding their management controls. The FMFIA program places reliance on each office at TTB to maintain a cost-effective system of controls to provide reasonable assurance that Government resources are protected against fraud, waste, abuse, mismanagement, or misappropriation.

Responsibilities of the Bureau's executive staff include ensuring that programs and administrative support activities are managed efficiently and effectively. Managers must conform to specific management accountability and improvement policies when designing, planning, organizing, and carrying out their responsibilities in order to ensure the most efficient and effective operation of their programs.

These policies address:

- Delegation of authority and responsibility;
- Hierarchical reporting of emerging management problems;
- Personal integrity;
- Quality data;
- Separation of key duties and responsibilities;
- Periodic comparisons of actual with recorded accountability of resources;
- Routine assessment of programs with a high potential for risk;
- Systematic review strategy to assess the effectiveness of program operations; and
- Prompt management actions to correct significant problems or improve operations.

Since stand-up, TTB has gradually developed its own Bureau-specific policies.

Management accountability systems must assure basic compliance with the objectives of the FMFIA and the management control standards set by the Government Accountability Office.

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

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

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

This increased emphasis on management controls has had a positive impact on programs achieving the intended results. The process also ensures that the utilization of resources is consistent with mission priorities and that program and resources are being used without waste, fraud, or mismanagement. Also, in addition to the A-123 review, TTB conducted a series of office reviews during FY 2007 that included a limited review of administrative and internal controls.

In summary, during FY 2007, TTB did not have any reportable conditions related to internal control or reportable instances of non-compliance with laws and regulations that could have a direct and material effect on our financial statements.

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

Financial Statements, Accompanying Notes, and Required Supplemental Information

Limitations of Financial Statements

TTB prepared financial statements to report the financial position and results of operations pursuant to the requirements of 31 U.S.C. 3515(b). The unaudited Bureau financial statements were prepared from the books and records of TTB according to formats prescribed by the Office of Management and Budget (OMB).

These statements are in addition to the financial reports used to monitor and control budgetary resources. The unaudited Bureau financial statements have been incorporated in the consolidated Department of the Treasury financial statements.

Management Responsibilities

Bureau management is responsible for the fair presentation of information contained in the principal financial statements, in conformity with generally accepted accounting principles (GAAP), and the form and content for entity financial statements specified by OMB in 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 the Treasury did receive an unqualified audit opinion on its FY 2007 financial statements. The financial activities of the Bureau are an integral part of the information reported on by the Department of the Treasury.

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

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

Department of the Treasury
Alcohol and Tobacco Tax and Trade Bureau
Balance Sheets (Unaudited)

For the Years Ended September 30, 2007 and 2006

		2007	2006
		(In Thousands)	
ASSETS			
Intragovernmental Assets:			
Fund Balance with Treasury	(Note 2)	$ 27,447	$ 25,580
Accounts Receivable, Net	(Note 3)	68	–
Due from the General Fund	(Note 5)	9,605	5,758
Advances	(Note 7)	2,113	1,513
Total Intragovernmental Assets		39,233	32,891
Accounts Receivable, Net	(Note 3)	307	116
Tax and Trade Receivables, Net	(Note 4)	3,740	1,942
Property, Plant and Equipment, Net	(Note 6)	12,718	13,002
TOTAL ASSETS		$ 55,998	$ 47,951
LIABILITIES			
Intragovernmental Liabilities:			
Accounts Payable		$ 1,053	$ 561
Accrued Funded Payroll Benefits		369	358
Accrued Unfunded FECA Liabilities		2	20
Due to the General Fund		3,683	1,365
Other Accrued Liabilities	(Note 9)	57	577
Total Intragovernmental Liabilities		5,164	2,881
Accounts Payable		12,956	3,765
Accrued Funded Payroll Benefits		1,689	1,730
Unfunded FECA Actuarial Liability		176	359
Accrued Refunds	(Note 5)	–	5,758
Accrued Unfunded Leave		3,887	3,617
Other Liabilities	(Note 9)	5,692	3,978
TOTAL LIABILITIES		$ 29,564	$ 22,088
NET POSITION			
Unexpended Appropriations		$ 17,893	$ 16,865
Cumulative Results of Operations		8,541	8,998
TOTAL NET POSITION		26,434	25,863
TOTAL LIABILITIES AND NET POSITION		$ 55,998	$ 47,951

The accompanying notes are an integral part of these statements.

Department of the Treasury
Alcohol and Tobacco Tax and Trade Bureau
Statements of Net Cost (Unaudited)

For the Years Ended September 30, 2007 and 2006

			2007		2006
			(In Thousands)		
PROTECT THE PUBLIC					
Program Costs					
Intragovernmental Gross Costs		$	13,720	$	12,819
Less: Intragovernmental Earned Revenue	(Note 13)		(92)		(21)
Intragovernmental Net Costs			13,628		12,798
Gross Costs with the Public			35,467		34,526
Less: Earned Revenues from the Public	(Note 13)		(1,292)		(840)
Net Costs with the Public			34,175		33,686
Total Net Cost		$	47,803	$	46,484
COLLECT THE REVENUE					
Program Costs					
Intragovernmental Gross Costs		$	13,273	$	13,182
Less: Intragovernmental Earned Revenue	(Note 13)		(89)		(22)
Intragovernmental Net Costs			13,184		13,160
Gross Costs with the Public			34,311		35,502
Less: Earned Revenues from the Public	(Note 13)		(1,250)		(863)
Net Costs with the Public			33,061		34,639
Total Net Cost		$	46,245	$	47,799
Costs Not Assigned to Programs			–		–
Less: Earned Revenues Not Attributed to Programs			–		–
NET COST OF OPERATIONS		$	94,048	$	94,283

The accompanying notes are an integral part of these statements.

Department of the Treasury
Alcohol and Tobacco Tax and Trade Bureau
Statements of Changes in Net Position (Unaudited)

For the Years Ended September 30, 2007 and 2006

		2007	2006
		(In Thousands)	
OPERATIONS			
Beginning Balances		$ 8,998	$ 10,302
Prior Period Adjustments	(Note 6)	–	–
Beginning Balances, as Adjusted		8,998	10,302
Budgetary Financing Sources			
Appropriations Used		89,590	89,185
Other Financing Sources			
Imputed Financing from Costs Absorbed by Others	(Note 12)	4,001	3,794
Total Financing Sources		93,591	92,979
Net Cost of Operations	(Note 13)	(94,048)	(94,283)
Net Position From Operations		$ 8,541	$ 8,998
UNEXPENDED APPROPRIATIONS			
Beginning Balances		$ 16,865	$ 15,835
Prior Period Adjustments		–	–
Beginning Balances, as Adjusted		16,865	15,835
Budgetary Financing Sources			
Appropriations Received		90,618	91,126
Other Adjustments – Rescissions		–	(911)
Appropriations Used		(89,590)	(89,185)
Total Financing Sources		1,028	1,030
Net Position of Unexpended Appropriations		$ 17,893	$ 16,865
TOTAL NET POSITION		$ 26,434	$ 25,863

The accompanying notes are an integral part of these statements.

Financial Results, Position and Condition

Department of the Treasury
Alcohol and Tobacco Tax and Trade Bureau
Statements of Budgetary Resources (Unaudited)

For the Years Ended September 30, 2007 and 2006

		2007	2006
		(In Thousands)	
BUDGETARY RESOURCES	(Note 14)		
Unobligated Balance – Beginning of Period			
Beginning of Period		$ 2,122	$ 1,731
Recoveries of Prior Year Obligations		3,365	2,142
Budget Authority			
Appropriations Received		90,618	91,126
Spending Authority from Offsetting Collections			
Earned			
Collected		2,464	1,838
Change in Receivable from Federal Sources		259	(92)
Change in Unfilled Customer Orders			
Advance Received		–	–
Without Advance from Federal Sources		(14)	(78)
Subtotal		93,327	92,794
Permanently not Available		–	(911)
TOTAL BUDGETARY RESOURCES		$ 98,814	$ 95,756
STATUS OF BUDGETARY RESOURCES			
Obligations Incurred:	(Note 15)		
Direct		$ 92,964	$ 91,964
Reimbursable		2,714	1,670
Subtotal		95,678	93,634
Unobligated Balance Apportioned		284	233
Unobligated Balance not Available		2,852	1,889
TOTAL STATUS OF BUDGETARY RESOURCES		$ 98,814	$ 95,756

(Continued on next page)

Department of the Treasury
Alcohol and Tobacco Tax and Trade Bureau
Statements of Budgetary Resources (Unaudited)

For the Years Ended September 30, 2007 and 2006

	2007	2006
	(In Thousands)	
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS:		
Unpaid obligations brought forward, Oct. 1	$ 19,834	$ 20,996
Uncollected customer payments from Federal sources brought forward, Oct. 1	(355)	(524)
Total unpaid obligated balance brought forward, net	19,479	20,472
Obligations incurred, net	95,678	93,634
Gross Outlays	(92,929)	(92,655)
Recoveries of prior year unpaid obligations, actual	(3,365)	(2,142)
Change in uncollected customer payments from Federal sources	(244)	170
Obligated balances, net end of period		
Unpaid obligations	19,218	19,834
Uncollected customer payments from Federal sources	(599)	(355)
Total unpaid obligated balance, net, end of period	18,619	19,479
Net Outlays		
Gross outlays	92,929	92,655
Offsetting collections	(2,464)	(1,838)
Distributed offsetting receipts	(6)	(8)
NET OUTLAYS	$ 90,459	$ 90,809

The accompanying notes are an integral part of these statements.

Financial Results, Position and Condition

Department of the Treasury
Alcohol and Tobacco Tax and Trade Bureau
Statements of Custodial Activity (Unaudited)

For the Years Ended September 30, 2007 and 2006

		2007	2006
		(In Thousands)	
SOURCES OF CUSTODIAL REVENUE			
Revenue Received			
Excise Taxes		$ 14,716,048	$ 14,785,317
Interest		280	254
Penalties and Fines		560	676
Other Custodial Revenue		6	8
Total Revenue Received	(Note 17)	14,716,894	14,786,255
Refunds	(Note 16)	(349,886)	(355,855)
Net Revenue Received		14,367,008	14,430,400
Accrual Adjustment		(248)	(83)
Total Source of Custodial Revenue		$ 14,366,760	$ 14,430,317
DISPOSITION OF CUSTODIAL REVENUE			
Amounts Provided to Non-Federal Entities	(Note 16)	467,332	365,155
Amounts Provided to Fund the Federal Government	(Note 17)	13,899,676	14,065,245
Accrual Adjustment		(248)	(83)
Total Disposition of Custodial Revenue		$ 14,366,760	$ 14,430,317
NET CUSTODIAL REVENUE ACTIVITY		$ –	$ –

The accompanying notes are an integral part of these statements.

Notes to the Financial Statements

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The Alcohol and Tobacco Tax and Trade Bureau (TTB) was established on January 24, 2003, as a result of the Homeland Security Act of 2002. The Act transferred firearms, explosives, and arson functions of the Bureau of Alcohol, Tobacco and Firearms (ATF) to the Department of Justice and retained the tax collection and consumer protection provisions of the Internal Revenue Code (IRC) and Federal Alcohol Administration Act in TTB within the Department of the Treasury. While the agency has a new name, the history of TTB's regulatory responsibility dates back to the creation of the Department of the Treasury and the first federal taxes being levied on distilled spirits in 1791. TTB collects alcohol, tobacco, firearms, and ammunition excise taxes, protects the consumer by ensuring that alcohol beverages are labeled, advertised, and marketed in accordance with the law, and facilitates trade in beverage and industrial alcohols.

B. Basis of Presentation

The financial statements were prepared to report the significant assets, liabilities, and net cost of operations, changes in net position, budgetary resource, and custodial activities of TTB. The financial statements have been prepared from the books and records of TTB in conformity with accounting principles generally accepted in the United States of America (GAAP), form and content for entity financial statements specified by the Office of Management and Budget (OMB) in OMB Circular A-136, and guidance issued by the Treasury Department. TTB's accounting policies are summarized in this note. GAAP for Federal entities is primarily the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB), which has been designated the official accounting standards-setting body for the Federal Government by the American Institute of Certified Public Accountants. GAAP also includes Financial Accounting Standards Board (FASB) statements and concepts, Accounting Principles Board Opinions, as well as OMB, Government Accountability Office, and agency guidance. Some prior year balances may have been reclassified to conform to the current year's presentation.

C. Basis of Accounting

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

- Total accounts receivable on the Balance Sheet may not equal accounts receivable on the Statement of Budgetary Resources because receivables due from the public are presented on the Balance Sheet but not on the Statement of Budgetary Resources; and

- Total accounts payable on the Balance Sheet may not equal accounts payable on the Statement of Budgetary Resources because certain funded liabilities are presented separately on the Balance Sheet but included aggregately on the Statement of Budgetary Resources.

D. Revenues and Other Financing Sources

(1) Exchange Revenue

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

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

(2) Non-exchange Revenue

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

(3) Financing Sources

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

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

E. Fund Balance with Treasury

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

F. Accounts Receivable

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

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

G. General Property, Plant, and Equipment

Property, plant, and equipment purchased with a cost greater than or equal to $50,000 per unit and a useful life for two years or more, is capitalized and depreciated. Normal repairs and maintenance are charged to expense as incurred.

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

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

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

H. Advances

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

I. Non-entity Assets

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

J. Liabilities

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

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

K. Litigation Contingencies and Settlements

Probable and estimable litigation and claims against TTB are recognized as a liability and expense for the full amount of the expected loss. Expected litigation and claim losses include settlements to be paid from the Treasury Judgment Fund (Judgment Fund) on behalf of TTB and settlements to be paid from Bureau appropriations. The Judgment Fund pays claims in excess of $2,500. Settlements paid from the Judgment Fund for TTB are recognized as an expense and imputed financing source.

L. Annual, Sick, and Other Leave

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

M. Interest on Late Payments

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

N. Retirement Plan

Most TTB employees hired prior to January 1, 1984, participate in the Civil Service Retirement System (CSRS), to which TTB contributes 8.51 percent of basic pay. On January 1, 1984, the Federal Employees' Retirement System (FERS) went in to effect pursuant to Public Law 99-335. Employees hired after December 31, 1983, are automatically covered by FERS and Social Security. For most employees hired after December 31, 1983, TTB also contributes the employers' matching share of Social Security. For the FERS basic benefit, employees contribute .8 percent of basic pay while TTB contributes 10.7 percent, for a total contribution rate of 11.5 percent in FY 2007. The cost of providing a FERS basic benefit, as provided by the office of Personnel Management (OPM), is equal to the amounts contributed by TTB and the employees, because the plan is fully funded.

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

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

O. Federal Employees' Compensation Act

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

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

P. Use of Estimates

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

Note 2. Fund Balance with Treasury

Fund Balance with Treasury (FBWT) as of September 30, 2007 and 2006 consisted of the following (in thousands):

		2007		2006
Fund Balances:				
Appropriated Funds	$	21,755	$	21,601
Other Funds		5,692		3,979
Total	$	27,447	$	25,580
Status of Fund Balances:				
Unobligated Balance – Available	$	284	$	233
Unobligated Balance – Unavailable		2,852		1,889
Obligated Balance not yet Disbursed		18,619		19,479
Non-Budgetary FBWT		5,692		3,979
Total Status of Fund Balances	$	27,447	$	25,580

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

Note 3. Accounts Receivable, Net

Accounts Receivable as of September 30, 2007 and 2006 consisted of the following (in thousands):

		2007		2006
Intragovermental Accounts Receivable:				
Due from DO		68		–
Total Intragovernmental Accounts Receivable	$	68		–
Due from the Government of Puerto Rico	$	304	$	113
Due from Commercial Vendors		–		–
Due from Employees		3		3
Total Accounts Receivable Due from the Public	$	307	$	116

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

Note 4. Tax and Trade Receivables, Net

Tax and Trade Receivables as of September 30, 2007 and 2006 consisted of the following (in thousands):

	2007	2006
Taxes Receivable	$ 9,700	$ 9,055
Interest Receivable	2,310	1,949
Penalties, Fines and Administrative Fees Receivable	3,071	2,641
Total Tax and Trade Receivables	15,081	13,645
Allowance for Doubtful Accounts	(11,341)	(11,703)
Total Tax and Trade Receivables, Net	$ 3,740	$ 1,942

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

Note 5. Due from the General Fund

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

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

General Property, Plant and Equipment as of September 30, 2007 and 2006 consisted of the following (in thousands):

2007

	Service Life (Years)	Acquisition Value	Accumulated Depreciation	Net Book Value
ADP Software	3	$ 4,419	$ 2,132	$ 2,287
Equipment	2-10	4,596	3,897	699
Leasehold Improvements	2-5	1,137	259	878
Buildings	40	9,689	835	8,854
Total PP&E		$ 19,841	$ 7,123	$ 12,718

2006

	Service Life (Years)	Acquisition Value	Accumulated Depreciation	Net Book Value
ADP Software	3	$ 3,424	$ 1,533	$ 1,891
Equipment	2-10	4,596	3,334	1,262
Leasehold Improvements	2-5	799	54	745
Buildings	40	9,689	583	9,106
Total PP&E		$ 18,508	$ 5,504	$ 13,004

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

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

Note 7. Advances

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

Note 8. Non-entity Assets

The Bureau has total assets valued at $55.9 million, of which $19.0 million are non-entity assets. Below is a detailed breakout of the non-entity assets.

Non-entity assets as of September 30, 2007 and 2006 consisted of the following (in thousands):

	2007	2006
Intragovernmental Non-entity Assets:		
Fund Balance with Treasury	$ 5,692	$ 3,979
Due from the General Fund	9,605	5,758
Total Intragovernmental Non-entity Assets	15,297	9,737
Tax and Trade Receivables, Net	3,740	1,942
Total Non-Entity Assets	19,037	11,679
Total Entity Assets	36,961	36,272
Total Assets	$ 55,998	$ 47,951

Note 9. Other Liabilities

Other Liabilities as of September 30, 2007 and 2006 consisted of the following (in thousands):

		2007		2006
Due to the Fish and Wildlife Fund	$	57	$	577
Other Intragovernmental Liabilities	$	57	$	577
Cash Bond Liabilities	$	5,369	$	3,703
Offers-in-Compromise not yet Accepted		323		275
Total Other Liabilities with the Public	$	5,692	$	3,978
Total Other Liabilities	$	5,749	$	4,555

All Other Liabilities are considered current liabilities.

Note 10. Liabilities Not Covered by Budgetary Resources

For fiscal years 2007 and 2006, the Bureau's total liabilities were $29.6 million and $22.1 million, of which $4.1 million and $3.9 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, 2007 and 2006 consisted of the following (in thousands):

		2007		2006
Accrued Unfunded FECA Liability	$	2	$	20
Total Intragovernmental Liabilities not Covered by Budgetary Resources		2		20
FECA Actuarial Liability		176		359
Accrued Leave		3,887		3,617
Total Liabilities with the Public not Covered by Budgetary Resources		4,063		3,976
Total Liabilities not Covered by Budgetary Resources		4,065		3,996
Total Liabilities Covered by Budgetary Resources		25,499		18,092
Total Liabilities	$	29,564	$	22,088

Note 11. Future Funding Requirements

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

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

Note 12. Imputed Financing

Imputed Financing as of September 30, 2007 and 2006 consisted of the following (in thousands):

		2007		2006
Health Insurance	$	2,552	$	2,374
Life Insurance		7		7
Pension		1,442		1,413
Total Imputed Financing	$	4,001	$	3,794

Imputed financing recognizes actual cost of future benefits to be paid by other Federal entities. These benefits include Federal Employees Health and Benefits Program (FEHB), Federal Employees Group life Insurance Program (FEGLI), and pensions. Imputed financing also recognizes cost to be paid by the Judgment Fund. The Fund was established and funded by Congress under 31 U.S.C. 1304 to pay in whole or part court judgments and settlement agreements negotiated by Treasury on behalf of agencies, as well as certain types of administrative awards. The Judgment Fund did not pay out any awards on TTB's behalf during fiscal years 2007 or 2006.

SFFAS No. 5, "Accounting for Liabilities of the Federal Government," requires that employing agencies recognize the cost of pensions and other retirement benefits during their employees' active years of service. TTB does not report CSRS assets, FERS assets, accumulated plan benefits, or unfunded liabilities, if any, applicable to retirement plans because the accounting for and reporting of such amounts is the responsibility of OPM. Based on cost factors provided by OPM, which vary by retirement plan, estimated future pension benefits for TTB employees, to be paid by OPM, totaled $1.4 million. Similarly, OPM rather than TTB, reports liabilities for future payments to retired employees who participate in the FEHB and FEGLI programs. The FY 2007 FEHBP cost factor applied to a weighted average number of employees enrolled in the FEHB is $5,572 which produced a $ 2.6 million imputed cost. The FY 2007 FEGLI cost factor for employees enrolled in the FEGLI program, as provided by OPM, is .02 percent of their basic pay. The FEGLI amount totaling $7,000 also is included as an expense and imputed financing source in TTB financial statements for FY 2007.

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

Consolidated Gross Cost and Earned Revenue by Budget Functional Classification as of September 30, 2007 and 2006 consisted of the following (in thousands):

2007

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

2006

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

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

There are no material differences between the amounts reported on the Statement of Budgetary Resources and the estimated amounts reported in the Budget of the United States pertaining to budgetary resources, status of budgetary resources, and net outlays for appropriated funds. However, the fiscal 2007 Budget of the United States discloses estimated budget authority of $457 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 2007 and 2006, P.L. 110-5 and P.L. 109-115, respectively (in thousands):

	2007	2006
Appropriations Received	$ 90,618	$ 91,126
Rescissions	–	(911)
Appropriations Received, Net	90,618	90,215
Spending Authority From Offsetting Collections	2,709	1,668
Total Budgetary Resources	$ 93,327	$ 91,883

Note 15. Apportionment Categories of Obligations Incurred

Obligations Incurred as of September 30, 2007 and 2006 consisted of the following (in thousands):

Fiscal Year	Apportionment Category	Direct Obligations	Reimbursable Obligations	Total Obligations Incurred
2007	Category B	$ 92,964	$ 2,714	$ 95,678
2006	Category B	$ 91,964	$ 1,670	$ 93,634

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

Note 16. Net Custodial Revenue Activity

- **Excise Taxes**

As an agent of the Federal Government and as authorized by 26 U.S.C., TTB collects excise taxes from alcohol, tobacco, firearms, and ammunition industries. In addition, special occupational taxes are collected from certain alcohol and tobacco businesses. During FY 2007, TTB collected nearly $14.8 billion in taxes, interest, and other revenues.

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

- **Refunds and Other Payments**

During FY 2007, TTB issued more than $817 million in refunds, cover-over payments, and drawback payments.

Cover-over Payments

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

TTB maintains operations in Puerto Rico to enforce the provisions of chapter 51 in respect to items of Puerto Rican manufacture brought in to the United States. These operations include conducting annual revenue, application, and product integrity investigations of large alcohol and tobacco industry members. Except for application investigations, TTB investigates medium and small alcohol and tobacco producers in response to specific problems and risk indicators. Revenue inspections are used to verify that TTB is collecting all of the revenue that is rightfully due from the taxpayer. TTB staff in Puerto Rico also conducts qualification inspections of all distilled spirits producers/processors, wineries, wholesalers, importers, Manufacturers of Non-Beverage Products (MNBP) claimants, and Specially Denatured Alcohol permit applicants. All costs associated with the functioning and supporting of the Puerto Rico office, $2.4 million in fiscal 2007, are offset against the cover-over payments made by the United States to Puerto Rico.

Drawbacks

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

Refunds, Drawbacks and Coverover Payments as of September 30, 2007 and 2006 consisted of the following (in thousands):

	2007	2006
Alcohol and Tobacco Excise Tax Refunds	$ 13,208	$ 17,524
Drawbacks on MNBP Claims	335,706	337,632
Interest and Other Payments	972	698
Refunds	349,886	355,854
Cover-over Payments – Puerto Rico	459,278	358,664
Cover-over Payments – Virgin Islands	8,054	6,492
Amounts Provided to Non-federal Entities	467,332	365,156
Total Refunds, Drawback and Coverover Payments	$ 817,218	$ 721,010

As of September 30, 2007, the amount of custodial liability due to the general fund was $3,683.

Note 17. Non-exchange Revenues and Refunds

Collection and Disposition of Custodial Revenue as of September 30, 2007 and 2006 consisted of the following (in thousands):

FY 2007 Collections and Refunds by Tax Year

Revenue Type	2007	2006	2005	Pre-2005	FY 2007 Total
Excise Taxes	$ 10,792,953	$ 3,918,592	$ 1,394	$ 3,109	$ 14,716,048
Fines, Penalties, Interest and Other	413	213	22	198	846
Total Revenue Received	10,793,366	3,918,805	1,416	3,307	14,716,894
Less: Amounts Collected for Non-federal Entities	(467,332)				(467,332)
Total	$ 10,326,034	$ 3,918,805	$ 1,416	$ 3,307	$ 14,249,562

Refund Type	2007	2006	2005	Pre-2005	FY 2007 Total
Excise Taxes	$ 190,167	$ 156,102	$ 1,717	$ 1,672	$ 349,658
Fines, Penalties, Interest and Other	228				228
Total Refunds	$ 190,395	$ 156,102	$ 1,717	$ 1,672	$ 349,886
Amounts Provided to Fund the Federal Government	$ 10,135,639	$ 3,762,703	$ (301)	$ 1,635	$ 13,899,676

FY 2006 Collections and Refunds by Tax Year

Revenue Type	2006	2005	2004	Pre-2004	FY 2006 Total
Excise Taxes	$ 10,877,805	$ 3,903,046	$ 847	$ 3,619	$ 14,785,317
Fines, Penalties, Interest and Other	938				938
Total Revenue Received	10,878,743	3,903,046	847	3,619	14,786,255
Less: Amounts Collected for Non-federal Entities	(365,155)				(365,155)
Total	$ 10,513,588	$ 3,903,046	$ 847	$ 3,619	$ 14,421,100

Refund Type	2007	2006	2005	Pre-2005	FY 2007 Total
Excise Taxes	$ 183,290	$ 168,320	$ 839	$ 3,022	$ 355,471
Fines, Penalties, Interest and Other	384				384
Total Refunds	$ 183,674	$ 168,320	$ 839	$ 3,022	$ 355,855
Amounts Provided to Fund the Federal Government	$ 10,329,914	$ 3,734,726	$ 8	$ 597	$ 14,065,245

Note 18. Reconciliation of Net Cost of Operations to Budget

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

Reconciliation of Net Cost of Operations to Budget as of September 30, 2007 and 2006 consisted of the following (in thousands):

	2007	2006
Resources Used to Finance Activities		
Budgetary Resources Obligated		
Obligations Incurred	$ 95,678	$ 93,634
Less: Spending Authority from Offsetting Collections and Recoveries	(6,073)	(3,810)
Obligations Net of Offsetting Collections and Recoveries	89,605	89,824
Less: Offsetting Receipts	(6)	(8)
Net Obligations	89,599	89,816
Other Resources		
Imputed Financing from Costs Absorbed by Others	4,001	3,794
Other (+/–)	–	–
Net Other Resources Used to Finance Activites	4,001	3,794
Total Resources Used to Finance Activities	$ 93,600	$ 93,610
Resources Used to Finance Items Not Part of the Net Cost of Operations		
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered but not Yet Provided (+/–)	$ (87)	$ 234
Resources that Fund Expenses Recognized in Prior Periods	199	(64)
Other Budgetary Offsetting Collections and Receipts That Do not Affect Net Cost of Operations	(6)	(8)
Resources that Finance the Acquisition of Assets	1,333	1,076
Other Resources or Adjustments to Net Obligated Resources That Do not Affect Net Cost of Operations (+/–)	–	–
Total Resources Used to Finance Items not Part of the Net Cost of Operations	$ 1,439	$ 1,238
Total Resources Used to Finance the Net Cost of Operations	$ 92,161	$ 92,372

(Continued on next page)

		2007		2006
Components of the Net Cost of Operations Requiring or Generating Resources in Future Periods				
Components Requiring or Generating Resources in Future Periods:				
Increase in Annual Leave Liability	$	270	$	318
Other (+/–)		–		139
Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods	$	270	$	457
Components of the Net Cost of Operations not Requiring or Generating Resources				
Depreciation and Amortization	$	1,617	$	1,454
Revaluation of Assets or Liabilities (+/–)		–		–
Other		–		–
Total Components of Net Cost of Operations that will not Require or Generate Resources	$	1,617	$	1,454
Total Components of Net Cost of Operations that will not Require or Generate Resources in the Current Period	$	1,887	$	1,911
NET COST OF OPERATIONS	$	94,048	$	94,283

Required Supplemental Information

Budgetary Information

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

Other Supplemental Information

Intragovernmental Assets

Consolidated Intragovernmental Assets as of September 30, 2007 (Unaudited) (in thousands):

2007

Trading Partner	Agency Code	Fund Balance w/ Treasury	Accounts Receivable	Advances and Other Assets
Department of the Treasury	20	$ 27,447	$ 68	$ 2,113
General Fund	99	–	9,605	–
Total		$ 27,447	$ 9,673	$ 2,113

Consolidated Intragovernmental Assets as of September 30, 2006 (Unaudited) (in thousands):

2006

Trading Partner	Agency Code	Fund Balance w/ Treasury	Accounts Receivable	Advances and Other Assets
Department of the Treasury	20	$ 25,580	$ –	$ 1,553
General Fund	99	–	5,758	–
Total		$ 25,580	$ 5,758	$ 1,553

Intragovernmental Liabilities

Consolidated Intragovernmental Liabilities as of September 30, 2007 (Unaudited) (in thousands):

2007

Trading Partner	Agency Code	Fund Balance w/ Treasury	Accounts Receivable	Advances and Other Assets
Government Printing Office	04	$ 65	$ –	$ –
Department of the Interior	14	–	–	57
Department of Justice	15	698	–	–
Department of Labor	16	–	2	–
Department of the Treasury	20	48	–	–
Office of Personnel Management	24	–	–	271
General Services Administration	47	217	–	–
Treasury General Fund	99	25	–	3,781
Total		$ 1,053	$ 2	$ 4,109

Consolidated Intragovernmental Liabilities as of September 30, 2006 (Unaudited) (in thousands):

2006

Trading Partner	Agency Code	Fund Balance w/ Treasury	Accounts Receivable	Advances and Other Assets
Government Printing Office	04	$ 197	$ –	$ –
Department of the Interior	14	–	–	577
Department of Labor	16	–	20	–
Department of the Treasury	20	4	–	–
Office of Personnel Management	24	–	–	264
General Services Administration	47	306	–	–
Treasury General Fund	99	54	–	1,459
Total		$ 561	$ 20	$ 2,300

Intragovernmental Earned Revenue

Consolidated Intragovernmental Earned Revenue as of September 30, 2007 and 2006 (Unaudited) (in thousands):

Trading Partner	Agency Code	FY 2007	FY 2006
Department of Justice	15	$ 18	$ 43
Department of the Treasury	20	163	–
Total		$ 181	$ 43

Gross Cost to Generate Earned Revenue:

Budget Function Classification	Code	FY 2007	FY 2006
Central Fiscal Operations	803	$ 181	$ 43
Total		$ 181	$ 43

Intragovernmental Gross Cost

Consolidated Intragovernmental Gross Cost as of September 30, 2007 and 2006 (Unaudited) (in thousands):

Trading Partner	Agency Code	FY 2007	FY 2006
Library of Congress	03	$ 62	$ 32
Government Printing Office	04	229	317
Department of Justice	15	709	825
Department of Labor	16	55	(53)
Department of the Treasury	20	5,786	4,561
Department of the Army	21	2	–
Office of the Personnel Management	24	11,271	10,914
General Services Administration	47	5,899	6,531
Environmental Protection Agency	68	5	–
Department of Homeland Security	70	328	319
Department of Health and Human Services	75	63	57
National Archives Records Administration	88	28	30
Department of Defense	97	113	189
General Fund	99	2,443	2,279
Total		$ 26,993	$ 26,001

During FY 2007, TTB incurred costs with other Federal agencies totaling nearly $27.0 million. The majority of those costs were associated with the five entities detailed below.

- Department of Justice – TTB paid ATF $709 thousand for shared lab space and shared building services.
- Department of the Treasury – The Bureau received services from Treasury's Working Capital Fund, as well as administrative services from the Bureau of Public Debt's Administrative Resource Center, in the amount of $5.8 million.
- Office of Personnel Management – $11.3 million in costs were incurred for employee benefits.
- General Services Administration – $5.9 million paid to GSA was for rent and IT services.
- General Fund – $2.4 for employee benefits and lockbox fees.

Excise Tax and Other Collections

Excise Tax and Other Collections by Fiscal Year (Unaudited) (in thousands):

Fiscal Year	Alcohol	Tobacco	Firearms and Ammunition Excise Tax	Special Occupational Tax	Floor Stock Tax	Other	Total
1998	$ 6,524,894	$ 5,623,987	$ 164,792	$ 106,236	$ 2	$ 156	$ 12,420,067
1999	6,646,879	5,189,724	187,978	104,740	–	229	12,129,550
2000	6,777,592	6,758,060	197,840	102,803	261,824	351	14,098,470
2001	6,674,425	7,119,726	175,959	103,610	528	168	14,074,416
2002	6,889,401	7,763,652	205,027	101,893	115,609	159	15,075,741
2003	6,910,631	7,380,807	193,414	103,781	1,628	–	14,590,261
2004	6,995,366	7,433,852	216,006	100,562	–	359	14,746,145
2005	7,074,076	7,409,608	225,818	10,190	9	141	14,719,842
2006	7,182,940	7,350,058	249,578	2,895	638	146	14,786,255
2007	7,232,138	7,194,081	287,835	2,808	–	32	14,716,894
Average	$ 6,890,834	$ 6,922,356	$ 210,425	$ 73,952	$ 38,024	$ 174	$ 14,135,764

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

TTB collects FAET taxes on behalf of the Department of Interior, U.S. Fish and Wildlife Service, and deposits the collections directly into the Fish and Wildlife Restoration Fund. During fiscal 2007, TTB incurred more than $2.3 million in direct and indirect costs associated with collecting the FAET taxes. The law currently does not provide for us to recover these costs. The cost of the program was communicated to the Fish and Wildlife Service so they could properly record an imputed cost in their financial records.

Refunds, Cover-over Payments, and Drawbacks Payments

Refunds, Cover-over Payments, and Drawbacks Payments by Fiscal Year (Unaudited) (in thousands):

Fiscal Year	Cover-over Puerto Rico	Cover-over Virgin Islands	Alcohol and Tobacco Excise Tax	Drawbacks MNBP Claims	Interest and Other	Total
1998	$ 229,323	$ 2,317	$ 7,667	$ 243,066	$ 1,947	$ 484,320
1999	234,673	2,782	4,513	259,214	1,559	502,741
2000	296,313	2,963	5,420	261,377	1,221	567,294
2001	332,903	3,532	13,260	289,985	1,765	641,445
2002	340,362	5,145	10,523	361,854	1,855	719,739
2003	356,144	6,405	15,168	296,168	2,011	675,896
2004	335,293	6,244	15,409	355,605	1,216	713,767
2005	419,602	6,010	18,504	317,132	2,100	763,348
2006	358,664	6,491	17,524	337,632	699	721,010
2007	459,278	8,054	13,208	335,706	972	817,218
Average	$ 336,256	$ 4,994	$ 12,120	$ 305,774	$ 1,535	$ 660,678

MNBP – Manufacturer of Non-Beverage Products

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

Part IV

Appendices

Principal Officers of TTB

Administrator .... **John Manfreda**

Deputy Administrator .... **Vicky McDowell**

Equal Employment Opportunity and Diversity .... **Tram-Tiara Ngo**

Assistant Administrator Field Operations .... **Mary Ryan**

Assistant Administrator Headquarters Operations .... **William Foster**

Assistant Administrator Management/CFO .... **Cheri Mitchell**

Assistant Administrator Management /CIO .... **Robert Hughes**

Director, Office of Inspection .... **Theresa Glasscock**

Executive Liaison for Industry and State Matters .... **Susan Stewart Evans**

Chief Counsel .... **Robert Tobiassen**

For additional information, contact:

Alcohol and Tobacco Tax and Trade Bureau
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http://www.ttb.gov

Relationship between the Treasury and TTB Strategic Plans

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

Finance: Effectively Managed U.S. Government Finances		
Treasury Strategic Goals and Objectives	**TTB Mission and Strategic Goals**	**TTB CTR Objectives**
TREASURY FINANCIAL STRATEGIC OBJECTIVE: Available cash resources to operate the government as needed without excess. **Outcome:** Revenue collected when due through a fair and uniform application of the law.	**COLLECT THE REVENUE** **1. OUTREACH/PROMOTE COOPERATION:** Provide high quality service, while imposing the least regulatory burden. **2. ENFORCEMENT:** Promote voluntary compliance and eliminate or prevent tax evasion and other criminal conduct. **3. EFFECTIVE AND EFFICIENT TAX COLLECTION SYSTEMS:** Provide the most effective and efficient system for the collection of all revenue that is rightfully due.	**TTB CTR 1.1** Improve service to the taxpayer and reduce the burden of compliance with Federal law [Service and Outreach]. **TTB CTR 2.1** Promote voluntary compliance and prevent tax evasion and identify other criminal conduct in the regulated industries [Enforcement]. **TTB CTR 3.1** Maximize electronic solutions [eGov].

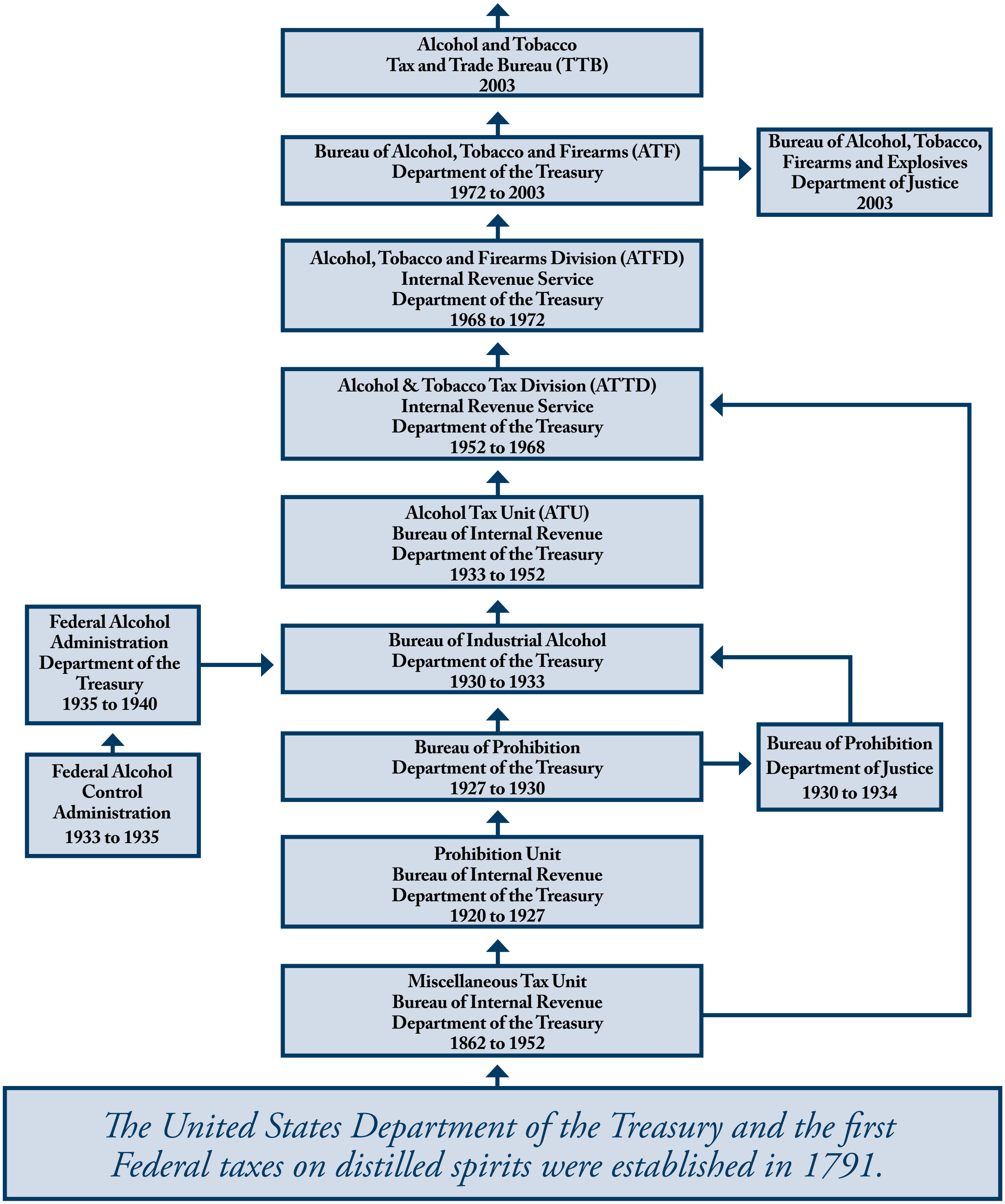
Security: Strengthened International Financial System Security and Enhanced U.S. National Security		
Treasury Strategic Goals and Objectives	**TTB Mission and Strategic Goals**	**TTB PTP Objectives (Security)**
TREASURY SECURITY STRATEGIC OBJECTIVE: Minimized and neutralized threats to U.S. national security and international financial systems.	**PROTECT THE PUBLIC** **1. BUSINESS INTEGRITY (Security):** Assure that only persons who carry permits as authorized by statute operate within the industries TTB regulates.	**TTB PTP 1.1** Issue permits to qualified applicants. **TTB PTP 1.2** Assure that no current industry members are linked to criminal or terrorist organizations, or are otherwise a prohibited person.

Appendices

Management: Management and Organizational Excellence		
Treasury Strategic Goals and Objectives	**TTB Mission and Strategic Goals**	**TTB MGT Objectives**
TREASURY MGT STRATEGIC OBJECTIVE: Constructive contribution to Americans' quality of life through an enabled and effective Treasury Department. **Outcome:** A citizen-centered, results-oriented and strategically aligned organization. Exceptional accountability and transparency.	**REFINE MANAGEMENT PRACTICES:** **1. MANAGEMENT-SUPPORTED OPTIMUM PROGRAM EFFECTIVENESS AND EFFICIENCY.** Ensure that all TTB programs operate at optimum efficiency and effectiveness and with full accountability, by providing high quality management and administrative support.	**TTB MGT 1.1** Implement a performance-based management system for meeting TTB's mission. **TTB MGT 1.2** To deliver streamlined, flexible, and robust IT solutions that maximize the performance, value, and results to enable TTB to fulfill its mission and goals. **TTB MGT 1.3** Use financial management systems to support TTB strategic management and financial accountability by providing information that is useful, timely, and reliable, and that assists TTB in optimizing decision-making. **TTB MGT 1.4** Manage human capital to support TTB programs and the achievement of Bureau goals by building and sustaining a work environment conducive to performance excellence and personal and organizational development.

Department of the Treasury

Alcohol and Tobacco Tax and Trade Bureau (TTB)
History (1789 – 2007)



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