Audit Report

OIG-19-031

FINANCIAL MANAGEMENT

Audit of the Alcohol and Tobacco Tax and Trade Bureau's Financial Statements for Fiscal Years 2018 and 2017

December 21, 2018

Office of Inspector General
Department of the Treasury

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DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

December 21, 2018

MEMORANDUM FOR JOHN J. MANFREDA, ADMINISTRATOR
ALCOHOL AND TOBACCO TAX AND TRADE BUREAU

FROM: James Hodge /s/
Director, Financial Audit

SUBJECT: Audit of the Alcohol and Tobacco Tax and Trade Bureau's Financial Statements for Fiscal Years 2018 and 2017

I am pleased to transmit the attached subject report. Under a contract monitored by our office, KPMG LLP (KPMG), a certified independent public accounting firm, audited the financial statements of the Alcohol and Tobacco Tax and Trade Bureau (TTB) as of September 30, 2018 and 2017, and for the years then ended, provided a report on internal control over financial reporting, and a report on compliance with laws, regulations, and contracts tested. The contract required that the audit be performed in accordance with U.S. generally accepted government auditing standards, Office of Management and Budget Bulletin No. 19-01, *Audit Requirements for Federal Financial Statements,* and the Government Accountability Office/Council of the Inspectors General on Integrity and Efficiency, *Financial Audit Manual.*

In its audit of TTB, KPMG found

- the financial statements were fairly presented, in all material respects, in accordance with U.S. generally accepted accounting principles;
- no deficiencies in internal control over financial reporting that are considered material weaknesses; and
- no instances of reportable noncompliance with laws, regulations, and contracts tested.

In connection with the contract, we reviewed KPMG's reports and related documentation and inquired of its representatives. Our review, as differentiated from an audit performed in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on the TTB's financial statements or conclusions about the effectiveness of internal control or compliance with laws and regulations.

KPMG is responsible for the attached auditors' reports dated December 18, 2018, and the conclusions expressed in the report. However, our review disclosed no instances where KPMG did not comply, in all material respects, with U.S. generally accepted government auditing standards.

Should you have any questions, please contact me at (202) 927-0009, or a member of your staff may contact Shiela Michel, Manager, Financial Audit, at (202) 927-5407.

Attachment

Alcohol and Tobacco Tax and Trade Bureau

Annual Report

Fiscal Year 2018

Alcohol and Tobacco Tax and Trade Bureau

Annual Report

Fiscal Year 2018

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INTRODUCTION

Within its FY 2018 Annual Report, the U.S. Department of the Treasury's Alcohol and Tobacco Tax and Trade Bureau (TTB) combines program performance with financial data to demonstrate how effectively the Bureau translates its program dollars into effective market protection and increased tax revenue.

Each year, as part of the performance and budget cycle, TTB issues this report to inform its stakeholders of the Bureau's accomplishments and explain any challenges. The report defines the Bureau's mission, strategic goals, and major programs, and summarizes its progress in meeting the objectives outlined in the TTB strategic plan. TTB also presents financial information that depicts how TTB expends its budget according to its major programs and accounts for tax collections from the alcohol, tobacco, firearms, and ammunition industries.

This report presents this information in four parts:

Part I – Management's Discussion and Analysis. This section provides an overview of the Bureau, including its mission and programs, and highlights of program performance and financial operations.

Part II – Annual Performance Report. This section provides a discussion of results achieved for TTB strategic goals and related strategic objectives according to TTB's Collect the Revenue and Protect the Public mission and budget activities.

Part III – Financial Results, Position, Condition and Auditors' Report. In this section, TTB presents audited balance sheets, statements of net cost, changes in net position, budgetary resources, and custodial activity as of and for the years ending September 30, 2018, and September 30, 2017, and the Independent Auditors' Report on these financial statements. Also included is a report on the Bureau's internal controls over financial reporting and a report on TTB's compliance with laws and regulations. This section also includes a discussion of budget activities for each of the TTB's seven major programs and supplemental information, such as a history of federal excise tax collections for the past decade.

Part IV – Appendices. This section includes a list of TTB's principal officers and strategic plan information that demonstrates the relationship between TTB's plan and the Department of the Treasury's mission and goals.

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MESSAGE FROM THE ADMINISTRATOR AND DEPUTY ADMINISTRATOR

With our revised FY 2018 - 2022 TTB Strategic Plan, we have redoubled our commitment to strengthening our results-oriented culture. In this new plan, we have set five-year strategic goals to improve our key programs, as well as quantified priority goals to achieve important outcomes for our stakeholders along the way.

At TTB, we understand that our work has real consequences for the industries we regulate. With that in mind, we continuously strive for timely, consistent, and quality service to support new and existing industry members in operating thriving businesses.

This year, under the new Treasury and TTB priority goal, we dramatically reduced the time to approve new businesses to hold a federal permit, using risk-based policies and practices to address delays that created potential financial hardships for applicants and slowed domestic economic growth. With ongoing industry growth and expansion, we also faced unprecedented increases in industry submissions for alcohol beverage label and formula approvals, cutting across all commodities and including both domestic and imported products. Despite this tremendous growth, we maintained total average review times well below 30 days.

At the same time, we remain focused on timely and effective enforcement to maintain a level playing field for all taxpayers, ensuring that all meet their tax obligations. With the passage of tax reform, TTB faces new challenges in ensuring that U.S. producers and importers are appropriately applying the new reduced rates and tax credits. TTB will continue to partner with U.S. Customs and Border Protection to ensure that industry has timely guidance to comply with the new law and to establish effective analytics and joint enforcement protocols to protect federal revenues.

Similarly, to protect small businesses that represent the majority of TTB taxpayers, TTB will continue to actively enforce the federal laws restricting certain trade practices that undermine fair competition and limit consumer choice. In today's highly competitive marketplace, TTB's enforcement in this area has never been more important to ensure all industry members have market access, regardless of their ability to pay to play.

Our new plan focuses on these mission outcomes and establishes performance goals that represent our culture of aiming high and achieving incremental but steady progress toward our FY 2022 strategic goals. Accomplishing these goals will require that we continue to take calculated risks and continuously innovate. To this end, we will continue to create an environment where leaders, staff, and key stakeholders engage in open dialogue and respectful debate to identify, implement, and sustain policies and practices to drive performance results.

TTB has validated the accuracy, completeness, and reliability of the financial and performance data contained in this report.

John Manfreda *TTB Administrator*	Mary Ryan *TTB Deputy Administrator*

MISSION, VISION, AND VALUES

MISSION

Our mission is to:

- **COLLECT** the taxes on alcohol, tobacco, firearms, and ammunition;
- **PROTECT** the consumer by ensuring the integrity of alcohol products;
- **ENSURE** only qualified businesses enter the alcohol and tobacco industries; and
- **PREVENT** unfair and unlawful market activity for alcohol and tobacco products.

VISION

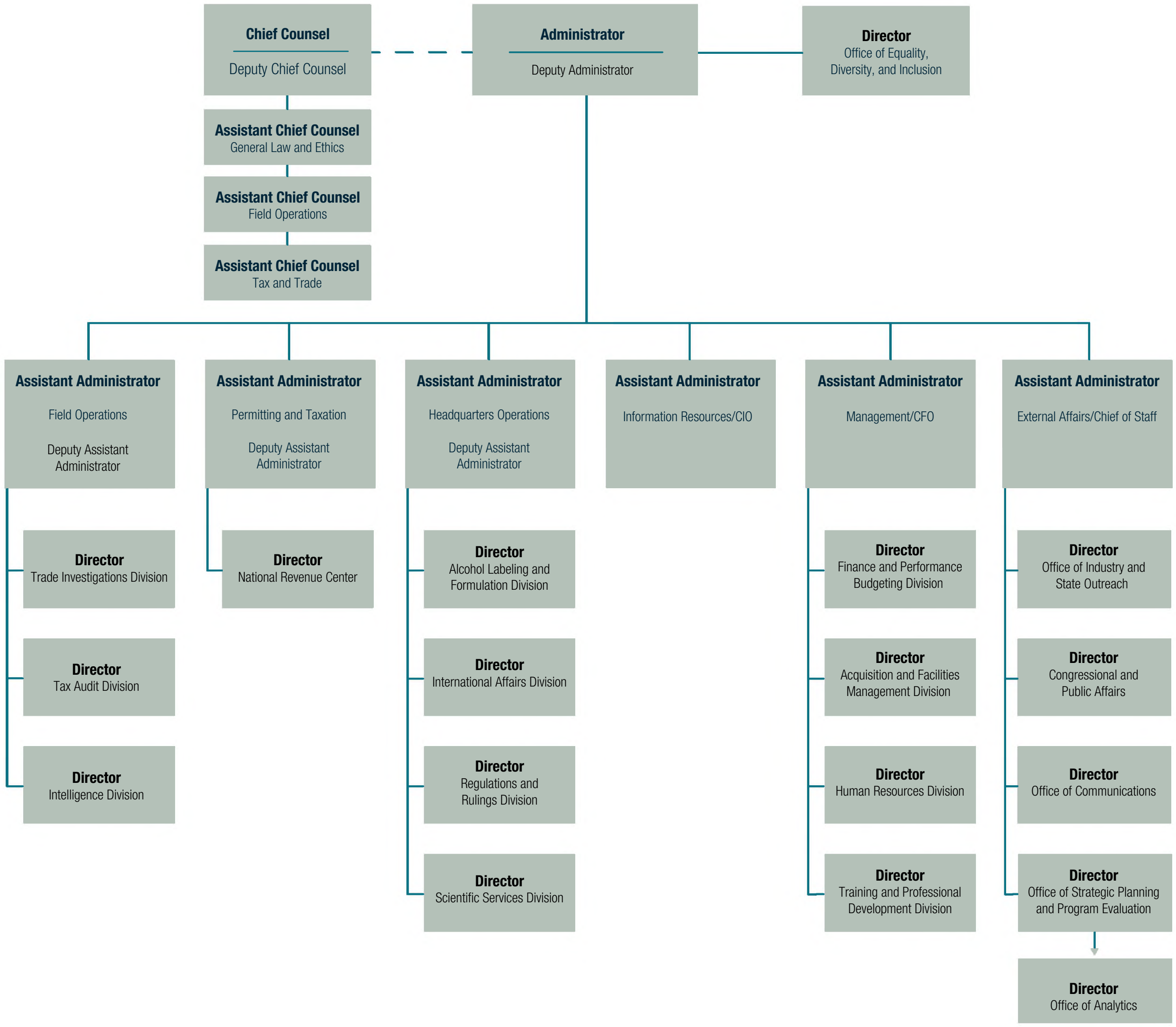
Our vision is to be a model for next generation government in the regulation, taxation, and science of alcohol and tobacco products

VALUES

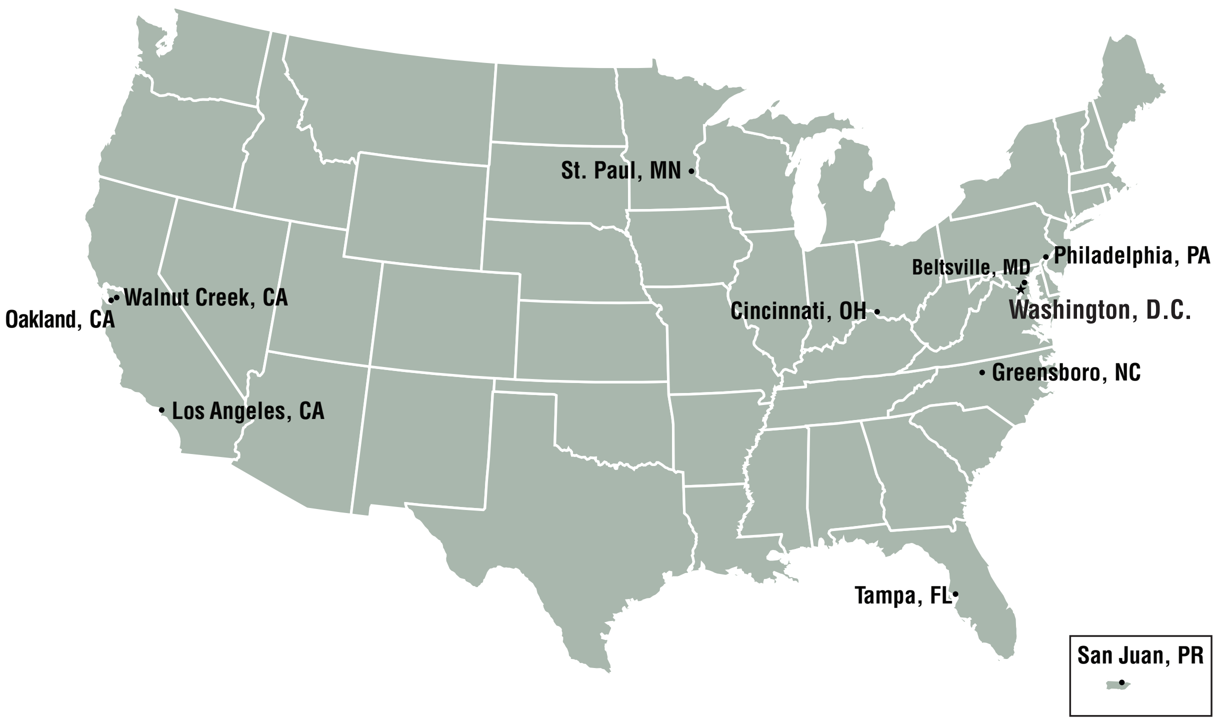
We value:

- **PEOPLE.** We support each other through teamwork and collaboration, leveraging diversity and inclusivity.
- **INTEGRITY.** We foster trust through honesty and transparency, conduct ourselves with professionalism and candor, and treat others with respect.
- **RESULTS.** We are accountable and committed to delivering meaningful results.
- **ACCESSIBILITY.** We are available to the public and our colleagues through communication and partnership.
- **INNOVATION.** We are creative and resourceful in achieving the mission, taking manageable risks and adapting based on results.

TTB ORGANIZATION



TTB OFFICE LOCATIONS



TTB at a Glance	FY 2017	FY 2018
Employees	507	503
Office Locations	12	11
Budget Authority	$111.4 Million	$111.4 Million
Revenue Collected	$21.8 Billion	$20.6 Billion

*TTB has some field offices co-located in larger cities.

PART I
MANAGEMENT'S DISCUSSION AND ANALYSIS

1.1 PROFILE OF A BUREAU

Supporting the nation's economic vitality is at the core of the work performed by the Alcohol and Tobacco Tax and Trade Bureau (TTB). The Bureau's role in permitting, regulating, and taxing the alcohol and tobacco industries ensures a fair marketplace, compliant commerce, and a level playing field for those engaged in the manufacture and trade of these commodities.

The Bureau was formed in January 2003, under the Homeland Security Act of 2002, but its history began more than 200 years ago as one of the earliest federal tax collection agencies. Today, TTB operates under the authorities of the Internal Revenue Code of 1986 (IRC),[1] the Federal Alcohol Administration Act (FAA Act),[2] the Alcoholic Beverage Labeling Act of 1988 (ABLA),[3] and the Webb-Kenyon Act.[4] These laws put in place strict requirements and controls related to alcohol and tobacco products and contain restrictions on who can make, sell, and distribute these commodities.

TTB is staffed with approximately 500 employees, most of whom report to either the headquarters office in Washington, D.C., or the National Revenue Center in Cincinnati, Ohio. For its auditors, investigators, and agents to most effectively operate in the field, TTB maintains a minimal physical footprint, with 9 offices in cities across the United States and Puerto Rico. These small, strategically located offices place the Bureau in close proximity to centers of trade and industry activity, and provide effective launch points for TTB's investigative and audit teams. Additionally, the Bureau has two laboratory facilities in Walnut Creek, California and Beltsville, Maryland.

TTB administers its jurisdiction according to two core mission areas—"Collect the Revenue" and "Protect the Public"—both of which serve to support economic growth and stability by ensuring that the federal government has the resources needed to fund national priorities and that lawful U.S. alcohol businesses are competitive and thriving in the global marketplace.

1. Chapters 51 and 52 of the IRC provide for excise taxation and authorize operations of alcohol and tobacco producers and related industries, and IRC sections 4181 and 4182 provide for excise taxes for firearms and ammunition.

2. The FAA Act provides for regulation of those engaged in the alcohol beverage industry and for protection of consumers through certain requirements regarding the labeling and advertising of alcohol beverages. The FAA Act also includes provisions to preclude unfair trade practices that serve as barriers to competition and trade in the U.S. marketplace.

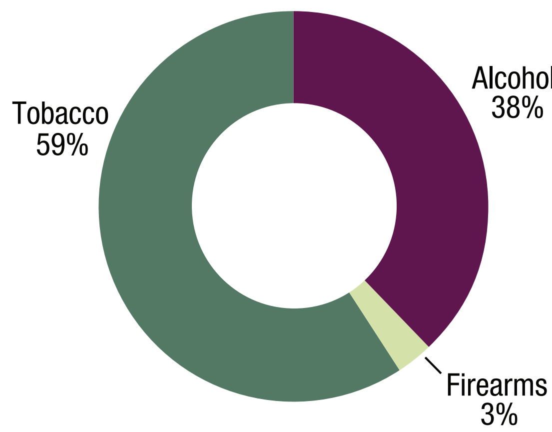
3. The ABLA mandates that a Government warning statement appear on all alcohol beverages offered for sale or distribution in the United States.

4. The Webb-Kenyon Act prohibits the shipment of alcohol beverages into a state in violation of that state's laws.

Collect the Revenue: Key Programs

TTB is the third largest tax collection agency in the U.S. government, behind the Internal Revenue Service (IRS) and U.S. Customs and Border Protection (CBP). Annual revenues from the alcohol, tobacco, firearms, and ammunition industries are approximately $20.6 billion. TTB excise tax collections reached an historic high of nearly $24 billion in FY 2010, principally due to increased receipts from the tobacco industry. Today, tobacco revenues comprise 59 percent of TTB's total excise tax collections.

FY 2018 Total Tax Collections by Industry Type



TTB's Collect the Revenue mission includes various tax administration and enforcement programs to collect all alcohol, tobacco, firearms, and ammunition excise taxes rightfully due. TTB performs these functions according to two main programs: 1) Alcohol and Tobacco, and 2) Firearms and Ammunition Excise Tax (FAET).

The tax rate on alcohol and tobacco products depends on a variety of factors, including product type (i.e., wine, distilled spirits, or beer) as well as characteristics of the products themselves, such as composition and weight. A critical first step in tax enforcement is the assignment of a tax class to alcohol and tobacco products based on federal statutory and regulatory standards. TTB conducts product evaluations during audits and investigations to check for proper tax classification based on the characteristics of the product as defined by statute.

In effecting its revenue mission, TTB uses a strategic risk-based approach to verify that industry members remit the excise taxes due on the alcohol, tobacco, firearms, and ammunition products sold to U.S. consumers. This strategy enables TTB to cover a wide universe of taxpayers and establish an identifiable enforcement presence to deter industry members and others from engaging in diversion and other forms of tax evasion. Through its data-driven analyses, TTB focuses on identifying the highest risk activity for audits and investigations. Continuous refinements to these data analytic tools combined with sound intelligence enable TTB to efficiently deploy its enforcement resources to address the most serious revenue threats.

TTB also uses its criminal enforcement authority to address tax evasion by entities and individuals manufacturing or selling these products illegally. The diversion of products into domestic commerce without the payment of taxes threatens federal revenues, undermines fair competition, and provides a source of funding for criminal enterprises.

Protect the Public: Key Programs

TTB's public protection mission includes a wide range of activities that directly affect American consumers and the U.S. economy. TTB's role in regulating the trade of alcohol and tobacco products ensures not only consumer confidence in the integrity of the products manufactured in the U.S., but also that businesses are operating on a level playing field—key outcomes that promote job growth and a strong economy. TTB's work in this mission area aligns under three main programs: 1) Permits and Business Assurance; 2) Alcohol Labeling, Advertising, and Product Safety; and 3) Trade Facilitation.

Under its statutory authority, TTB evaluates permit applications prior to approval to ensure that only qualified persons operate within the TTB-regulated industries. Through this process and other activities under its Permits and Business Assurance Program, TTB protects federal revenues by preventing prohibited persons from commencing operations and engaging in illicit activity. Prompt turnaround times for permit applications are equally critical to enable those who are qualified to hold a federal permit to timely begin their operations, facilitating U.S. economic growth in a fair marketplace.

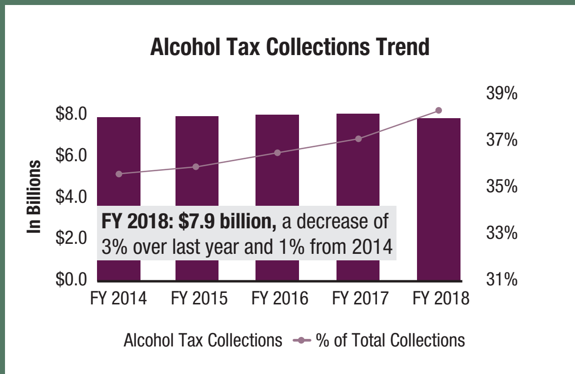
Under its Alcohol Labeling, Advertising, and Product Safety Program, TTB carries out provisions of the FAA Act that are intended to ensure that the labeling and advertising of alcohol beverages provide adequate information to consumers concerning the identity and quality of products. Before an alcohol beverage product subject to the FAA Act can be sold in the United States, TTB reviews the product label to ensure that it contains all mandatory information and will not mislead the consumer. The approved label application is called a Certificate of Label Approval (COLA). Prior to label approval, TTB also evaluates the formulation of certain domestic and imported alcohol beverages to support the accurate labeling and appropriate tax classification of those products.

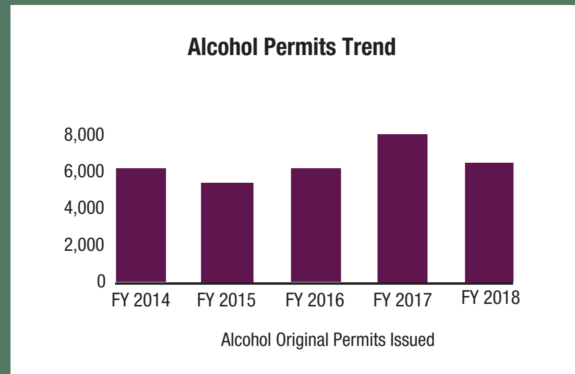
This authority also calls for TTB to prevent misleading labeling or advertising that may result in consumer deception regarding alcohol beverage products. TTB confirms compliance with federal product and labeling regulations by reviewing production records through product integrity investigations and by conducting marketplace sampling to test products for safety as well as container content and label compliance.

TTB is also charged with ensuring that the alcohol marketplace is free from practices that would stifle competition and act as a barrier to trade. TTB meets this mandate through a variety of activities under its Trade Facilitation program. TTB actively enforces the provisions of the FAA Act that prohibit unfair trade practices in alcohol beverage distribution, including exclusive outlets, tied house arrangements, commercial bribery, and consignment sales. Under the TTB Trade Facilitation Program, TTB also engages its foreign counterparts to keep the channels of commerce open and operating in compliance with U.S. and international laws, serving as the principal technical expert for the Office of the United States Trade Representative (USTR) and other federal agencies in the administration of U.S. alcohol laws, regulations, and policies. In any given year, a substantial portion of new barriers to trade relate to alcohol beverages, and TTB plays a crucial role in the early identification and resolution of these potential trade barriers for U.S. alcohol exporters. TTB also works with other federal agencies in the negotiation of international trade agreements related to alcohol beverages on behalf of the U.S. government.

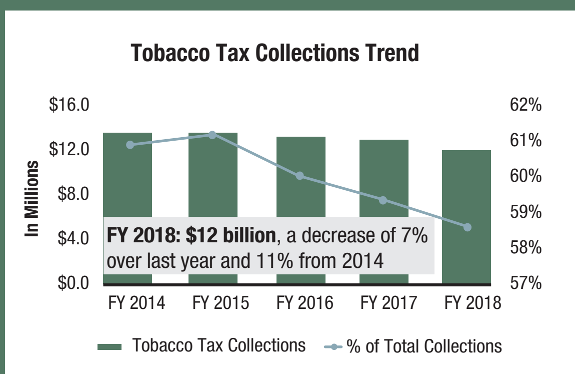
In all of TTB's Collect the Revenue and Protect the Public programs, the Bureau promotes voluntary compliance by providing clearer regulatory standards and guidance, encouraging use of its electronic filing systems (eGov), and supporting industry members through education and outreach efforts. TTB also provides industry members and states with direct assistance on specific needs and guidance on broader issues affecting the regulated commodities.

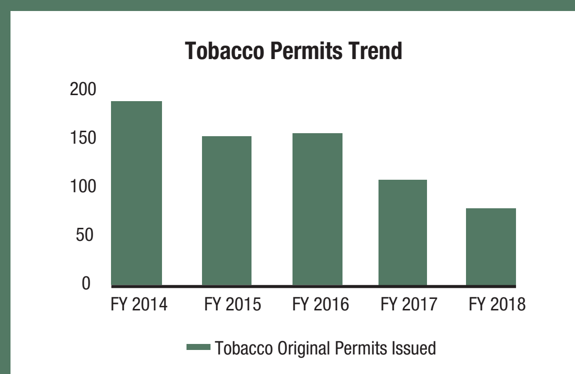
Alcohol Industry Snapshot



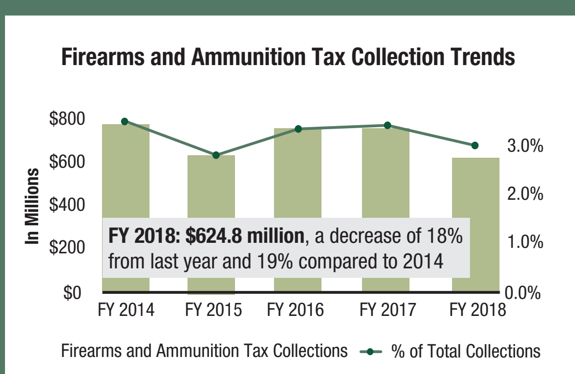


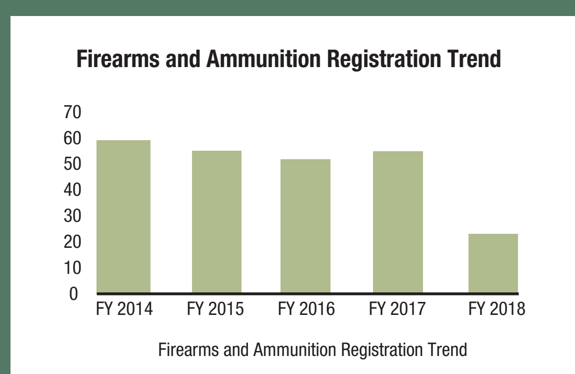
Tobacco Industry Snapshot





Firearms and Ammunition Industry Snapshot





1.2 ENTERPRISE RISKS AND CHALLENGES

TTB must effectively manage risks to achieve its strategic goals and objectives. TTB has employed enterprise risk management principles to implement a framework for identifying and elevating crosscutting risks and developing effective mitigation strategies. TTB is also focused on establishing and fostering a culture that encourages open and transparent communication around potential risks and other concerns as a key component of TTB's implementation of enterprise risk management.

TTB identified the following as critical mission and operational risks in FY 2018.

- **Tax Reform Implementation.** The new craft beverage modernization provisions of the Tax Cuts and Jobs Act (Public Law 115-97) pose certain revenue risks due to the expanded eligibility for reduced rates and tax credits, further straining limited resources for both implementation and enforcement efforts. TTB continues to work toward mitigating these risks through timely policy decisions, industry guidance, and enforcement, and will continue to coordinate with U.S. Customs and Border Protection to implement the import provisions of the tax reform law to ensure eligible taxpayers correctly apply the reduced tax rates and tax credits for alcohol products.
- **Industry Growth.** Ongoing growth in the alcohol beverage sector, particularly in the number of wineries, breweries, and distilleries, will continue to present challenges to maintaining timely service and ensuring adequate enforcement. TTB will continue to manage workloads through targeted policy and process improvements and manage customer expectations through communicating its service standards to support industry members in operational planning.
- **Workforce Management.** The combination of high retirement eligibility across the TTB workforce, particularly in key leadership positions, and budget constraints that limit TTB's ability to backfill positions is increasing the Bureau's succession planning risk. TTB is managing this risk by focusing on workforce training and succession planning, in coordination with the roll out of the integrated talent management system across Treasury bureaus. TTB is also employing a variety of human capital policies and programs, such as expanding its use of special hiring authorities, including those for veterans and persons with disabilities.
- **Aging Technologies.** TTB needs to modernize its outdated tax systems to enable further improvements to Bureau processes and filing requirements, which will reduce compliance burdens on industry members and help to reverse a downward trend in voluntary compliance. TTB has initiated several initiatives to simplify the complexity of the Bureau's information technology infrastructure to lower recurring costs and ease the operation and maintenance burden. TTB also deployed a web services environment based on a modernized architecture for its core business systems to enable the Bureau to increase the pace of delivery and streamline system maintenance processes.
- **Evolving Cyber Threats.** Cyberattacks pose a significant risk to the sensitive tax and business information maintained on TTB systems, requiring the dedication of resources to cybersecurity instead of direct mission support to continually enhance TTB's cybersecurity tools and technologies. TTB continues to strengthen its cybersecurity posture through various technological enhancements to provide a more secure environment. The Bureau also engages with academia to develop more robust anti-phishing strategies.

1.3 TTB STRATEGIC MANAGEMENT FRAMEWORK

Pursuant to the requirements of the Government Performance and Results Act (GPRA) and the GPRA Modernization Act of 2010, TTB maintains a robust strategic management framework to achieve its FY 2018 - 2022 strategic goals and improve the efficacy of its programs. Using the Balanced Scorecard methodology, TTB developed its strategic objectives through a complete set of perspectives, including customers and stakeholders, financial stewardship, internal processes, and people and tools. Each strategic objective has a set of performance goals, which are a combination of performance measures and targets. TTB then regularly monitors its performance through a dashboard, which provides actionable data to support management decisions on annual priorities and resources.

STRATEGIC GOALS

TTB established five-year strategic goals to set the long-term outcomes and direction for its programs. As a results-oriented culture, TTB also uses priority goals, which have quantified and time-bound outcomes to ensure interim progress and significant improvements in high-risk areas along the way. For more information on TTB's priority goals, visit TTB.gov.

GOAL 1: Facilitate Commerce through the Timely Issuance of Permits to Qualified Applicants

Streamline permit applications to reduce applicant burden and use technology to minimize application errors and improve processing times

Priority Goal: *Reduce average approval times for alcohol and tobacco business permits by at least 20 percent (from 96 days to 75 days) and achieve the 75-day standard for 85 percent of applicants by September 30, 2019*

GOAL 2: Facilitate Commerce through a Modern Labeling Program Focused on Service and Market Compliance

Provide timely and consistent service, reducing the burden of resubmissions on industry and TTB, and employ risk-based market sampling and investigations to ensure product integrity and fair competition

GOAL 3: Improve Tax Compliance through Increased Voluntary Compliance and Enhanced Enforcement

Improve tax compliance through updated filings, processes, and technologies; enhanced analytics and other detection tools; and improved taxpayer education and outreach

GOAL 4: Address Cross-Border Tax Risk through Data Driven Enforcement

Improve diversion detection and enforcement in the cross-border trade of alcohol and tobacco products through the full integration of advanced analytics tools into enforcement planning and processes

GOAL 5: Equip the Workforce for Professional Growth and Development by Revitalizing TTB Training

Prepare the workforce to meet mission challenges through effective assessments of individual and organizational training needs and increasing availability of training opportunities to address critical skill gaps

Strategic Objective Alignment

TTB developed a crosscutting strategy comprised of 16 strategic objectives to build its organizational capacity and deliver outcomes to elevate performance across all of its strategic goals. The table below indicates the primary strategic objectives driving improvement in each strategic goal.

	Strategic Objectives	**Goal 1:** Facilitate Commerce through the Timely Issuance of Permits to Qualified Applicants	**Goal 2:** Facilitate Commerce through a Modern Labeling Program Focused on Service and Market Compliance	**Goal 3:** Improve Tax Compliance through Increased Voluntary Compliance and Enhanced Enforcement	**Goal 4:** Address Cross-Border Tax Risk through Data Driven Enforcement	**Goal 5:** Equip the Workforce for Professional Growth and Development by Revitalizing TTB Training
CUSTOMER & STAKEHOLDER	SO 1 Improve Reliable Service	★	★			★
	SO 2 Increase Voluntary Compliance	★	★	★		
	SO 3 Ensure Level Playing Field	★	★	★	★	
	SO 4 Reduce Illicit Trade				★	
FINANCIAL STEWARDSHIP	SO 5 Maximize Resource Efficiency	★	★	★	★	★
	SO 6 Improve Strategic Resourcing	★	★	★	★	★
INTERNAL PROCESSES	SO 7 Improve Policies, Processes, & Documentation	★	★	★	★	★
	SO 8 Update Regulatory Requirements	★	★	★	★	
	SO 9 Improve Internal Communication & Coordination	★		★	★	★
	SO 10 Enhance External Communication & Outreach	★	★	★		
	SO 11 Enhance Risk-Based Enforcement		★	★	★	
	SO 12 Improve Data Driven Decision Making	★	★	★	★	
PEOPLE & TOOLS	SO 13 Enhance Professional Expertise	★	★	★	★	★
	SO 14 Improve Employee Engagement	★	★	★	★	★
	SO 15 Optimize Electronic Systems	★	★	★	★	★
	SO 16 Increase Data Quality & Analytical Capacity	★	★	★	★	★

1.4 PERFORMANCE HIGHLIGHTS

TTB's diverse program activities under its Collect the Revenue and Protect the Public mission support U.S. economic growth and financial stability. The *TTB Strategic Plan for FY 2018–2022* charts a course to fulfill the Bureau's mission in a manner that addresses critical risks and is responsive to key stakeholders. The following performance overview reflects TTB's accomplishments and challenges towards achieving the Bureau's strategic goals to facilitate commerce, improve tax compliance, address cross-border tax risk, and build its workforce.

GOAL 1: Facilitate Commerce through the Timely Issuance of Permits to Qualified Applicants

TTB facilitates growth in the U.S. economy by ensuring that only qualified applicants enter business as an alcohol producer, wholesaler, or importer, or as a tobacco product manufacturer, importer, or export warehouse proprietor. In all, TTB processes applications for over 23 types of permits or registrations for the alcohol, tobacco, firearms, and ammunition industries. TTB uses risk-based background evaluations prior to approval to ensure that only qualified persons obtain a permit to operate. Given the substantial tax revenue associated with the commodities TTB regulates, this activity plays an important role in protecting federal revenues.

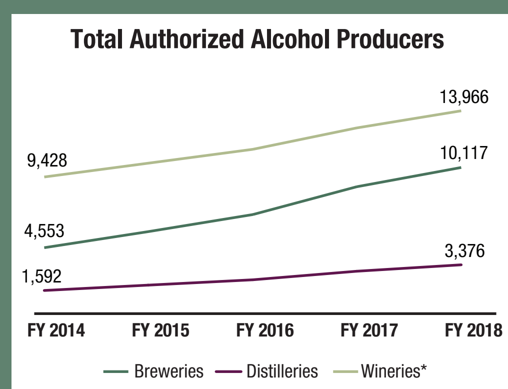
In FY 2018, TTB received approximately 9,000 applications for a federal permit or registration, and qualified approximately 6,500 new businesses. These are predominantly small businesses, which contribute to local job opportunities and often lead the industry in product innovation. Today, TTB regulates more than 90,000 industry members.

Ongoing expansion of the alcohol beverage industry in recent years has increased the volume of permit and brewer's notice applications, particularly for new alcohol producers. This growth in workload has contributed to delayed permit approvals by TTB – reaching an average of 122 days in FY 2016 – so that new businesses often waited months to begin producing and selling their products while having already made significant investments in their operations.

To address this performance challenge, in FY 2018, TTB established a priority goal to reduce average approval times for alcohol and tobacco business permits by at least 20 percent (from 96 days to 75 days) and achieve the 75-day standard for 85 percent of applicants by September 30, 2019.

In FY 2018, TTB's continuous improvement efforts in this goal centered on the following key strategic objectives:

- Improve Reliable Service
- Increase Voluntary Compliance
- Optimize Electronic Systems
- Enhance External Communication & Outreach
- Update Regulatory Requirements



*Includes bonded wine cellars

The number of applicants filing for an original permit, brewer's notice, or registration with TTB has increased significantly in recent years, driven by a boom in new breweries, distilleries, and wineries. Since FY 2014, the number of authorized wineries has increased nearly 50 percent. The growth rate for brewers and distillers has been far greater, at 122 percent and 112 percent, respectively.

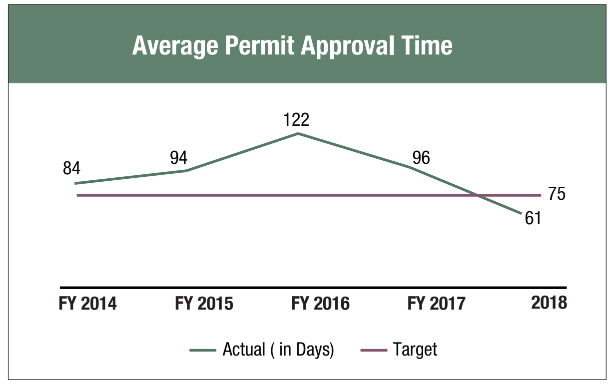
GOAL 1: Performance Highlights

In FY 2018, TTB made significant progress toward its strategic goal to timely issue permits to qualified applicants, both in terms of near term improvements in service delivery as well as initiating broader program improvements to sustain these performance levels in the future.

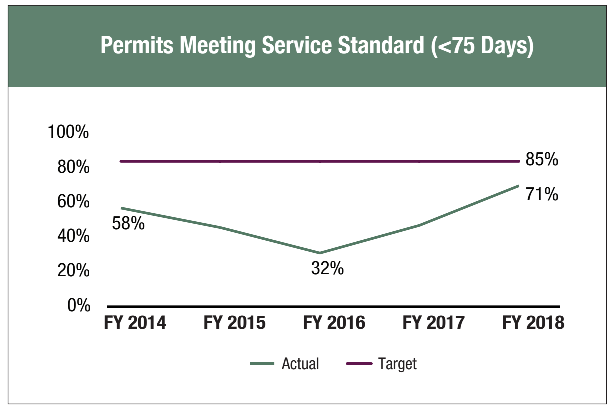
This year, in driving toward its priority goal targets, TTB dramatically improved processing times, decreasing from an average of 96 days in FY 2017 to 61 days in FY 2018, well over the targeted 20 percent reduction. TTB also improved the consistency of its service, processing 71 percent of permit applications within the 75-day standard compared to 48 percent the prior year.[5] TTB achieved these gains through revised processes and policies, and strategic workforce management.

TTB also released a redesigned Permits Online system this year, adding significant efficiencies for industry to amend and receive approval on amended permits, which is required when industry members make certain changes to their operations, premises, or ownership. The new system also improves navigation and guidance to support industry members in filing complete and compliant applications the first time, an important strategy for TTB's ability to sustain recent performance improvements. In addition, as part of the new system, TTB significantly reduced the burden associated with applying for a TTB permit by eliminating certain filing requirements and forms.

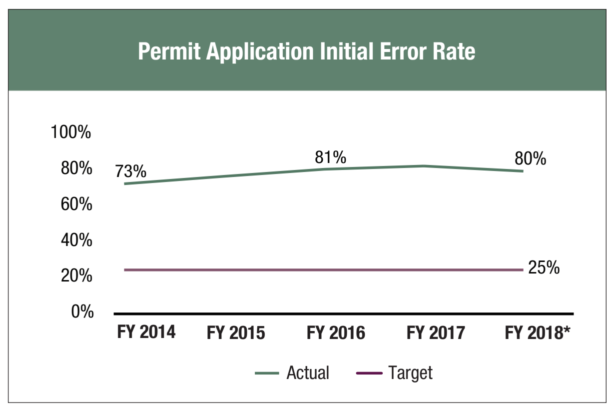
Staying on track to meet the TTB and Treasury Agency Priority Goal in FY 2019 will require managing significant challenges and risks, including the ongoing growth in application volume and persistently high error rate on permit applications, which increase TTB's total workload. Moving forward, TTB will also strive to balance its program improvement



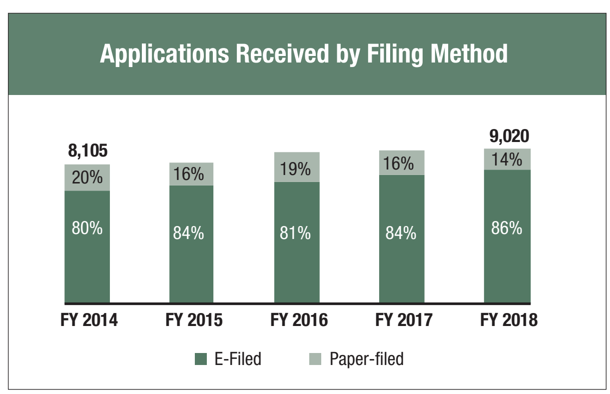
Average Permit Approval Time



Permits Meeting Service Standard (<75 Days)



Permit Application Initial Error Rate



Applications Received by Filing Method

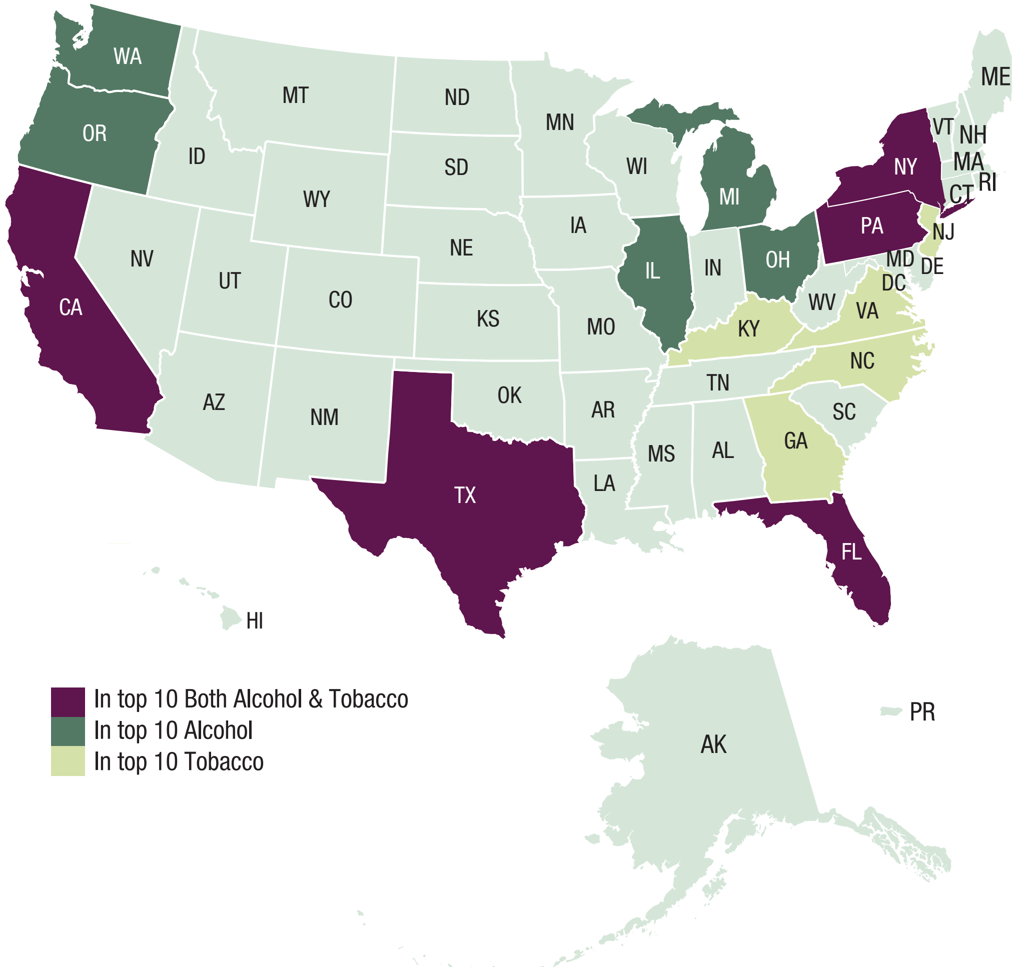
5 TTB transitioned to a new data reporting platform in FY 2018 that enabled the detection of several data quality issues following the migration of industry records into the new Permits Online system. These related to data entry of paper filings, which have since been corrected, but may require revisions to historical performance data. Additional data validations are in progress and updates will be reported on Performance.gov in Q1 FY 2019.

initiatives with the daily workload to address potential near-term performance shortfalls. TTB faced this challenge in the second half of FY 2018, when resources needed to be redeployed to support the Permits Online 5.0 release, which included system testing and training for TTB staff and industry, and resulted in temporary declines in performance.

Program improvement initiatives planned for FY 2019 include implementing recommendations from a September 2018 Lean Six Sigma process improvement review and improving internal documentation for all permit approval processes, both of which support process standardization to improve the efficiency and consistency of TTB's permit review and verification procedures. These efforts will also support additional system enhancements and industry guidance. TTB will also continue to refine its risk-based techniques for screening permit applications for additional review or field investigation prior to issuance. Enhancements in development for FY 2019 should support improvements to both the quality and timeliness of TTB reviews.

TTB is also looking at longer-term program improvements. In FY 2019, TTB plans to pursue rulemaking to modernize all TTB permit application requirements. These updates will reduce burdens related to permit applications on industry and TTB, while maintaining adequate controls to ensure revenue and market protection. TTB also intends to initiate the development of a custom version of Permits Online, which is contingent on funding. The new custom system would reflect the proposed permit application updates as well as enable additional process improvements.

FY 2018 Tax Permits by State



Top 10 States by Number of Alcohol Producer Permits	
State	# Permit Holders
California	9,179
New York	2,894
Washington	2,367
Texas	2,219
Pennsylvania	2,206
Michigan	1,842
Oregon	1,755
Ohio	1,574
Florida	1,547
Illinois	1,543

Top 10 States by Number of Tobacco Permits	
State	# Permit Holders
Florida	239
California	92
North Carolina	73
New York	71
Virginia	48
Texas	46
New Jersey	36
Pennsylvania	35
Kentucky	26
Georgia	20

TRADE PRACTICE ENFORCEMENT

Unlawful trade practices threaten fair competition because they undermine equal access to the marketplace and limit consumer choices. TTB enforcement has never been more important to ensure a level playing field and fair competition within the marketplace, particularly following years of growth by new, small industry members who cannot afford to pay for market access in this highly restricted space.

In May 2017, in the enacted FY 2017 budget, TTB received $5 million in directed funding for the purpose of increasing trade practice enforcement, available through the end of FY 2018. Prior to receiving this funding, TTB averaged two trade practice investigations per year based on its limited enforcement resources and the resource-intensive nature of these investigations. With the additional resources, which were renewed through FY 2019, TTB created an Office of Special Operations within its Trade Investigations Division, which includes dedicated investigators to increase trade practice enforcement. With these additional resources, TTB has initiated 59 trade practice investigations, which have included the effective use of National Response Teams to conduct larger, more complex investigations, and partnerships with state law enforcement authorities in Florida, Illinois, and California.

Due to their complexity, often involving multiple locations, crossing several jurisdictions, and requiring coordination with local and state authorities, trade practice cases can take several years to conclude. Of the cases initiated since TTB received the directed funding, TTB has closed three, two of which involved permit actions and one that resulted in the largest single offer in compromise that TTB has accepted in a trade practice case.

TTB is also committed to preventing anti-competitive conduct by increasing its industry outreach and education so that businesses understand their obligations and can voluntarily comply. In FY 2018, TTB hosted a series of well-attended trade practice seminars in partnership with state authorities at strategic locations across the country. In all, TTB reached approximately 800 industry members and key stakeholders this fiscal year, with plans to hold additional sessions in FY 2019 as well as increase its online guidance. TTB also engaged directly with industry members in FY 2018, with representatives attending several trade association meetings as panel members, which helped to educate a wide audience on trade practice regulations and enforcement and allowed for open questions to address specific concerns.

GOAL 2: Facilitate Commerce through a Modern Labeling Program Focused on Service and Market Compliance

Consumer confidence is essential to ensuring that the U.S. economy performs at its full potential. TTB is responsible for carrying out provisions of the FAA Act to ensure that the labeling and advertising of alcohol beverages provide adequate information to consumers concerning the identity and quality of a product.

After alcohol beverages enter the marketplace, TTB monitors labeling compliance through its market sampling program and product integrity investigations. The Bureau's continued monitoring of product and label compliance assists TTB in maintaining the integrity of alcohol beverage products in the U.S. market, both in the view of U.S. consumers and TTB's international counterparts, which is critical to gaining foreign market access for U.S. products.

The ongoing expansion of the alcohol beverage industry has significantly increased the volume of alcohol beverage label and formula applications submitted for TTB approval. Given the importance of timely TTB approvals and the negative impact that delays have on U.S. businesses, TTB must maintain a strategic focus to improve its ability to provide timely and consistent service.

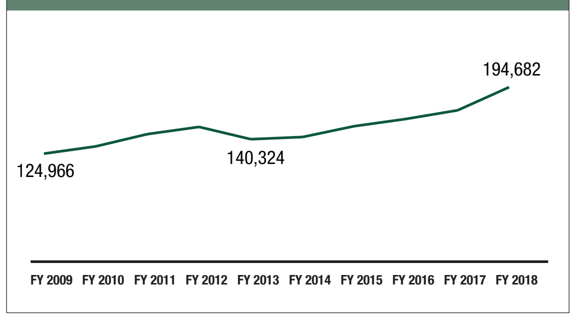
Since FY 2009, the total number of alcohol beverage label applications has increased nearly 60 percent, despite TTB's intervention strategies to reduce filing requirements in certain low-risk areas. These policy changes resulted in TTB slowing the pace of growth temporarily; however, in FY 2018, label submission volume increased by nearly 15 percent, well above historic trends. These increases cut across all alcohol commodities, and included both imported and domestic products; however, malt beverage and spirits label applications continue to drive these increases. In the last five years, malt beverage applications have more than doubled, and spirits applications have increased by 40 percent, tracking with the recent expansion in these industries.

Over the same period, the total number of alcohol beverage formula applications has increased by nearly 175 percent. Again, policy changes implemented by TTB were successful in temporarily curbing the growth in formulas, particularly in malt beverage submissions, which ended FY 2018 nearly 15 percent below FY 2014, the high water mark for malt beverage filings. However, market trends in spirits and wine, including significant growth in flavored wine and hard cider, have resulted in increased formulas for these products, generally offsetting these reductions.

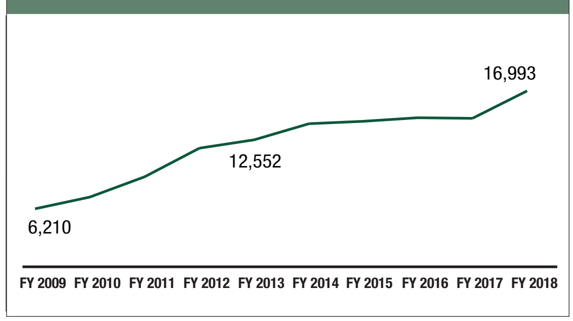
In FY 2018, TTB's continuous improvement efforts in this goal centered on the following key strategic objectives:

- Improve Reliable Service
- Increase Voluntary Compliance
- Optimize Electronic Systems
- Enhance External Communication & Outreach
- Update Regulatory Requirements

Total Label Applications Received



Total Formula Applications Received



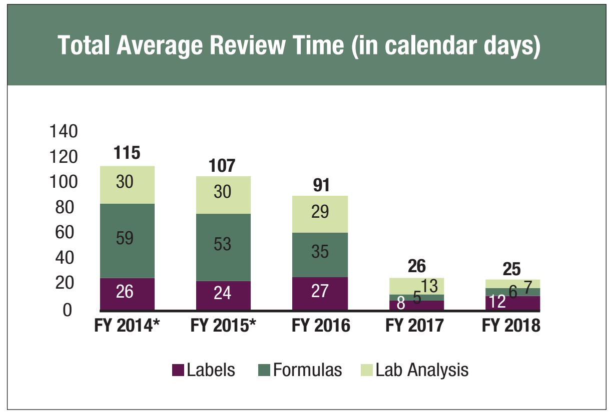
GOAL 2: Performance Highlights

In FY 2018, TTB continued to progress toward its strategic goal to modernize its labeling program, making significant strides in maintaining timely service in spite of tremendous year-to-year increases in submission volume, which reached 15 percent or more for both label and formula applications. Based on these increases, and with constant resources, TTB revised its service standards for labels and formulas from 10 days to 15 days in FY 2018.

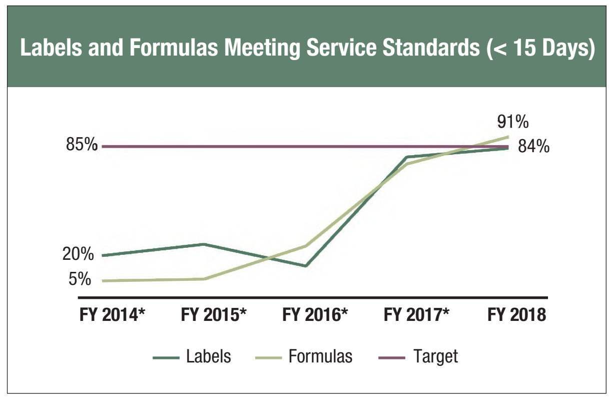
Through effectively managing its backlog and strategic workforce management, TTB was able to respond to these challenges and sustain average processing times at or below its service standards, and maintained a total average review time of 30 days or less for products requiring lab analysis, formula approval, and label approval. Further, in terms of consistent service, TTB met or nearly met its target to process 85 percent of label and formula applications within the 15-day standard, with 91 percent of formulas and 84 percent of labels turned around in 15 days or less.

In FY 2018, TTB continued to use its authority to implement risk-based policy changes to reduce the volume of label and formula applications without compromising TTB's market protection role. However, based on the extensive actions taken to date, TTB expects only marginal gains from this strategy going forward.

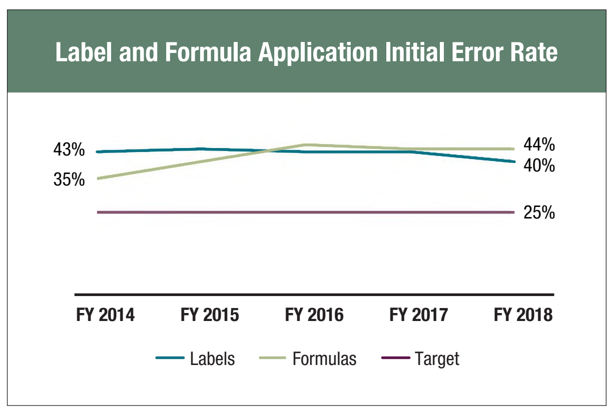
In the year ahead, TTB will focus its efforts on increasing voluntary compliance through initiatives to reduce label and formula application errors. Application errors are a key driver of processing times, as additional review is required for each resubmitted application. TTB will continue its strategy of releasing iterative enhancements to COLAs Online and Formulas Online to increase system-based application validations. Results indicate that these updates are having a positive effect in reducing label error rates, with errors holding below 40 percent for the first time in the second half of FY 2018.



*Estimated values



*Adjusted historic data to reflect the 15-day service standard for FY 2018 to support trend analysis; see Part II, Goal 2 performance table for performance levels at annual service standards.



Efforts to drive down error rates also include enhancing information on TTB.gov related to obtaining label and formula approval for alcohol beverage products. In FY 2018, in response to industry input, TTB published formula guidance with specific example applications and supporting documentation to clarify the requirements. TTB also released an updated web-based tool to assist malt beverage producers and importers in determining whether their products require formula approval, with the aim of bringing down filings for products that no longer require advance TTB approval. Additional step-by-step guidance to support industry in checking label and formula compliance prior to submitting their application is planned for FY 2019.

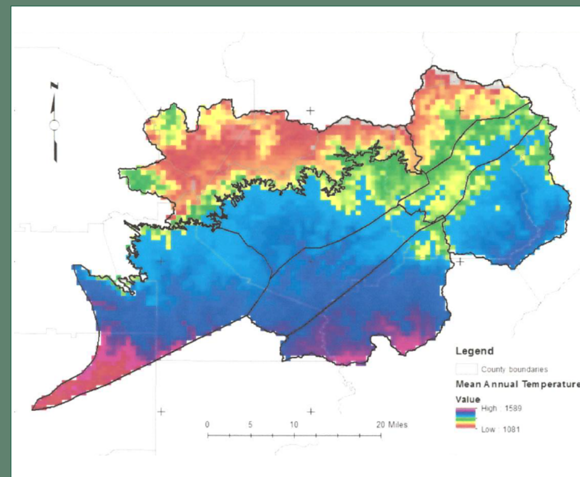
In addition, TTB will continue its efforts to improve industry guidance through updated labeling regulations. In FY 2018, TTB made substantial progress on its multiyear effort to modernize federal labeling regulations by consolidating, streamlining, and simplifying requirements to reflect current TTB policy and modern industry practices. With publication targeted for early FY 2019, the rulemaking will also reflect proposals that are designed to reduce regulatory burden and will include, where feasible, industry proposals received in response to the June 2017 Treasury Request for Information.

Finally, in FY 2019, TTB will continue to focus on incorporating random and risk-based sampling to both detect where issues may exist in the marketplace as well as evaluate products that may have a higher likelihood of non-compliance based on certain risk factors. These results will inform decisions on enforcement actions and priorities to effectively direct investigative and regulatory resources.

AMERICAN VITICULTURAL AREAS

An American Viticultural Area (AVA) is a delimited grape-growing region having a name, a delineated boundary, and distinguishing features as described in Part 9 of the TTB regulations. Distinguishing features may include climate, geology, soils, physical features, and elevation.

An AVA designation allows vintners and consumers to attribute a quality, reputation, or other characteristic of a wine made from grapes grown in an area to its geographic region. The establishment of an AVA allows vintners to more accurately describe the origin of their wines to consumers and helps consumers to identify wines that they may purchase.



Mean annual temperature distribution of the new Dahlonega Plateau AVA and surrounding regions

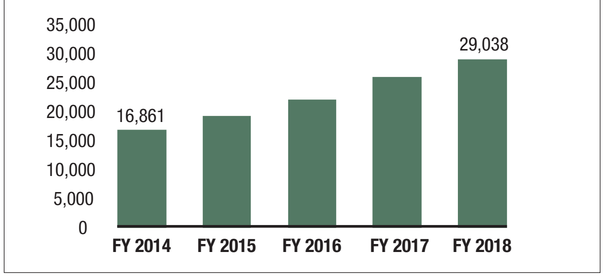
During FY 2018, TTB published eight AVA-related rulemaking documents. Of these eight documents, four were proposed rules: one document proposed a new AVA covering portions of Polk and Yamhill Counties in Oregon (Van Duzer Corridor) and clarifying the boundaries of an established AVA in Oregon (Eola-Amity Hills), and another proposed a new AVA covering portions of Albany, Montgomery, Rensselaer, Saratoga, Schenectady, Schoharie, and Washington Counties in New York (Upper Hudson). The other two documents proposed changes to the boundaries of existing AVAs: one document proposed expanding the Monticello AVA in Albermale, Green, Nelson, and Orange Counties in Virginia into Fluvanna County, Virginia, and the other proposed expanding the Arroyo Seco AVA, which is entirely within Monterey County, California. The four remaining documents were final rules: one document established a new AVA in portions of Sonoma and Marin Counties in California (Petaluma Gap) and modifying the boundary of an established AVA in California (North Coast), another document established a new AVA in Cape May and Cumberland Counties in New Jersey (Cape May Peninsula), the third document established a new AVA in portions of Lumpkin and White Counties in Georgia (Dahlonega Plateau), and the fourth document expanded an established AVA in New Jersey (Outer Coastal Plain).

As a result of this final rule, at the end of FY 2018, TTB and its predecessor agency, the Bureau of Alcohol, Tobacco and Firearms, have established a total of 242 AVAs.

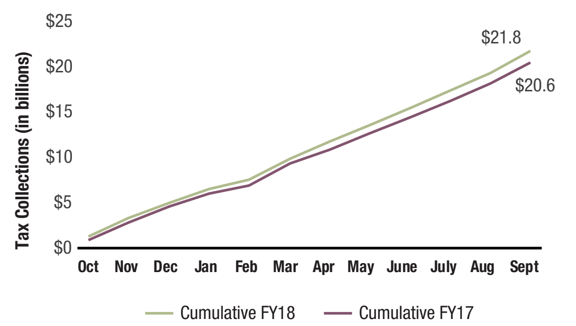
GOAL 3: Improve Tax Compliance through Increased Voluntary Compliance and Enhanced Enforcement

In FY 2018, TTB collected $20.6 billion in revenue from the alcohol, tobacco, firearms, and ammunition industries. As the number of TTB permittees continues to expand, with a corresponding increase in market competition, TTB must continue to innovate to ensure that taxpayers meet their obligations so that all are competing on a level playing field.

TTB Permittees Subject to Tax



TTB Total Tax Collections – Cumulative by Month



TTB will continue efforts to facilitate voluntary compliance through education and outreach to support industry in navigating complex tax requirements. TTB will also maintain a strategic focus on modernizing its filing requirements and tax systems to improve the ability to timely detect non-compliance through data-driven analysis. Modernized processes and systems will also support more efficient enforced collections, which are critical to deterring non-compliance. Finally, through comprehensive updates to its filings, processes, and systems, TTB will be able to reduce industry burden and enhance the Bureau's use of advanced analytics for tax administration and fraud detection, a key strategy to maximize the reach of TTB's limited resources.

The craft beverage modernization provisions of the Tax Cuts and Jobs Act (Public Law 115-97) have further increased the importance of these changes. These tax reform provisions contained some of the most significant changes to the tax code relating to alcohol beverages in almost 40 years. Among other things, the new provisions altered the tax rates for all three alcohol beverage commodities, introduced new reduced rates and credits, changed provisions relating to the types of businesses and activities that are eligible for reduced rates and credits, and allowed imports to be eligible for reduced rates and credits for the first time. Since the changes took effect in January 2018, total TTB revenues have declined, ending FY 2018 roughly 6 percent below the prior year.

Looking ahead, TTB will continue to address the compliance risks introduced by the new tax provisions through additional industry guidance and developing analytic tools to detect high-risk activity and non-compliance. If extended by Congress beyond the initial two-year period, we will continue developing and implementing strategies to address these risks.

In FY 2018, TTB's continuous improvement efforts in this goal centered on the following key strategic objectives:

- Increase Voluntary Compliance
- Enhance External Communication & Outreach
- Improve Policies, Processes, & Documentation
- Optimize Electronic Systems
- Update Regulatory Requirements

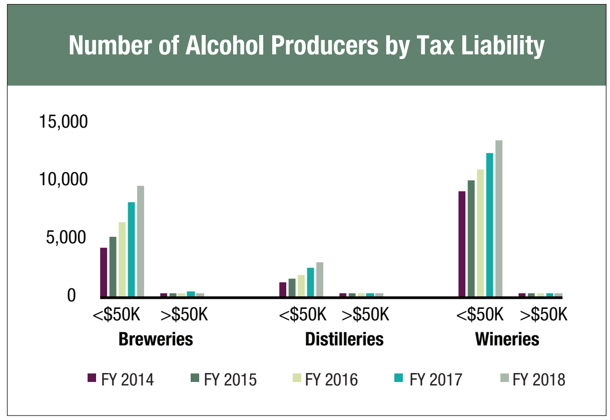
GOAL 3: Performance Highlights

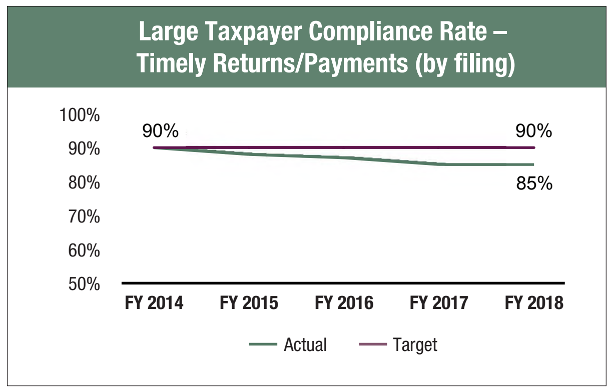
In FY 2018, TTB implemented its strategic goal to improve tax compliance in response to identified challenges in maintaining taxpayer compliance. The industries TTB regulates have grown significantly in recent years, which has created additional workload and enforcement challenges, particularly in light of recent tax reforms. This growth has cut across industry types, with the most significant increases in small businesses entering the alcohol industry. In the last five years, the TTB tax base has increased over 70 percent.

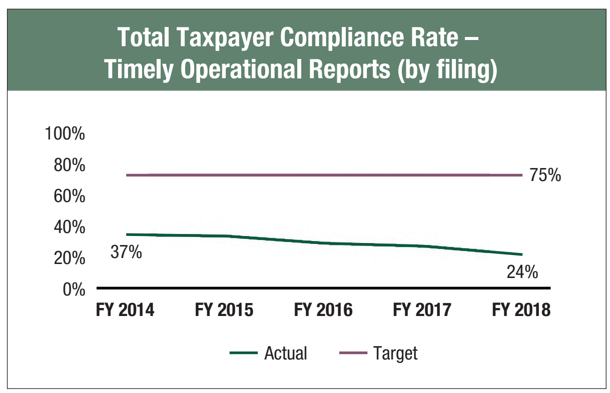
Over the same period, filing compliance by TTB taxpayers has generally trended negatively, placing annual excise tax revenue at risk for underreporting or fraud. TTB analysis indicates that smaller taxpayers are significantly less compliant than large taxpayers, defined as those with annual tax liabilities of $50,000 or more. Although the potential revenue risk from this segment may not be a significant percentage of total TTB collections, small taxpayer non-compliance undermines the level playing field, a particularly critical outcome for the small businesses who comprise the majority of TTB taxpayers.

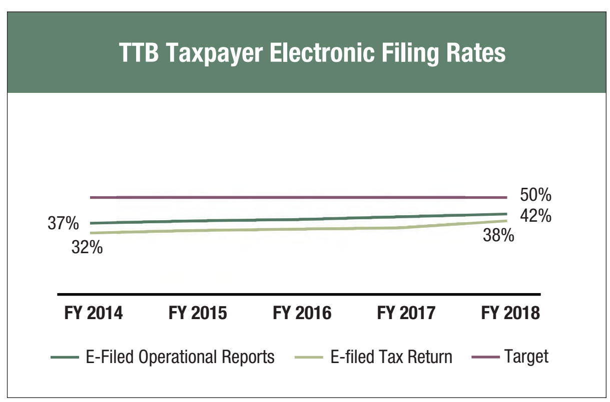
Compliance rates by large taxpayers in filing tax returns and payments have also eroded over the last five years. Performance results further indicate that compliance rates for operational reports, which provide important information for tax verification, are well below the compliance rate for returns, with overall timely filing rates ending FY 2018 at just 24 percent. TTB attributes these downward trends to a number of factors, including overall industry growth and expansion, limited TTB resources to direct toward industry outreach, and competing TTB enforcement priorities.

TTB's resources were further strained in FY 2018 following the December 2017 enactment of the Tax Cuts and Jobs Act (Public Law 115-97). The law took effect on January 1, 2018, and required an immediate and coordinated approach to implement the extensive alcohol excise tax-related provisions. TTB established a multi-disciplinary team of auditors, intelligence specialists, attorneys, and regulatory specialists, and worked with key stakeholders







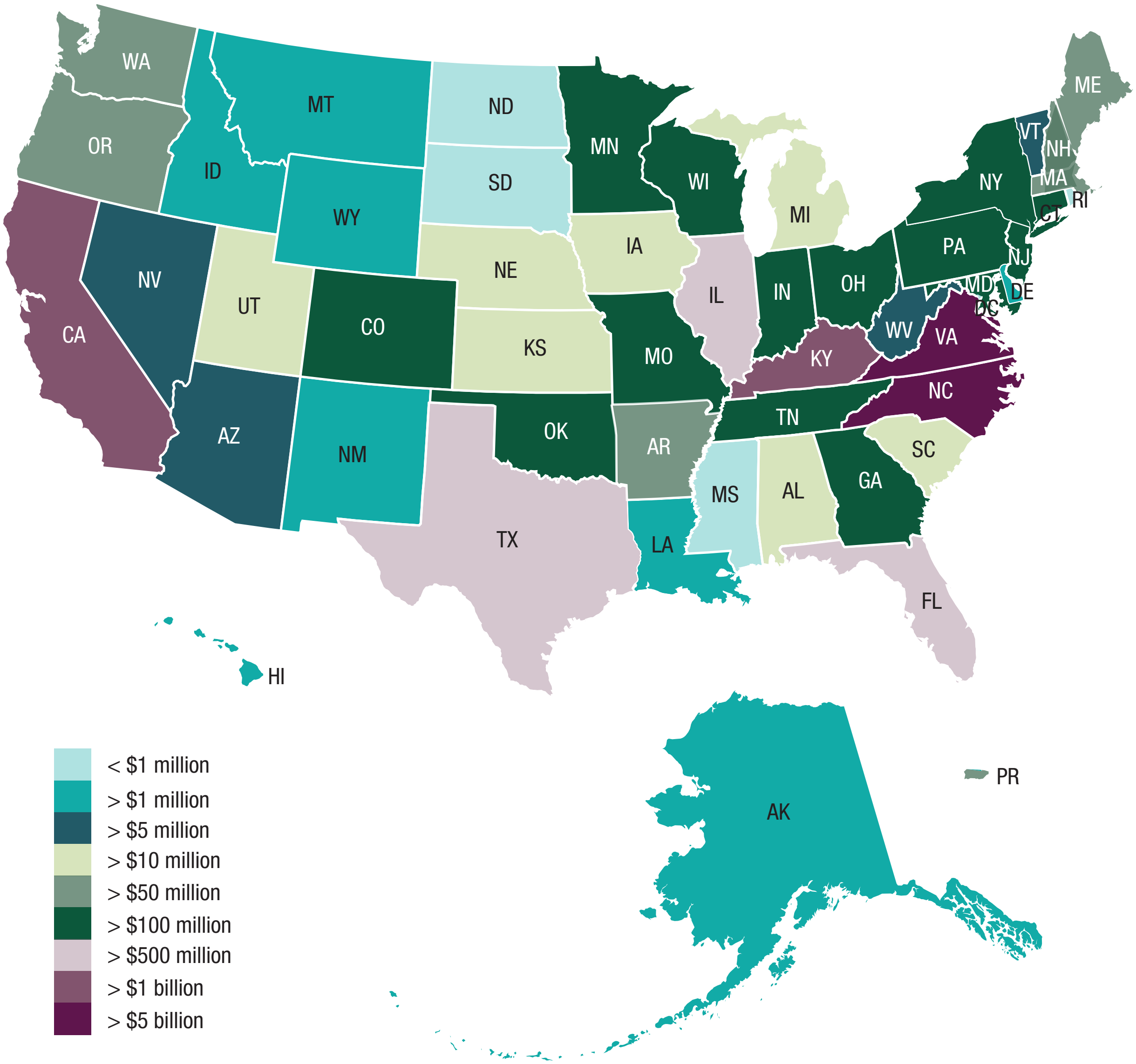


at Treasury, the Office of Management and Budget, and U.S. Customs and Border Protection (CBP) to develop policy positions interpreting the new provisions and issue timely guidance to industry.

Developing effective strategies to address these noncompliance trends has been complicated in recent years, in part, by current TTB measures, which calculate compliance rates by filing rather than taxpayer. TTB is developing new measures to support the tax compliance strategic goal under the FY18 – 22 plan, which will calculate compliance rates by taxpayer and tax liability, enabling more targeted and actionable strategies that will better align resources to critical risks.

Over the next several years, through this strategic goal, TTB plans to implement a multi-pronged strategy to improve tax compliance across the board. In FY 2019, TTB will focus on addressing revenue risk among its large taxpayer universe using a combination of directed enforcement and targeted outreach. Within the next two years, TTB plans to launch initiatives to improve industry guidance related to tax requirements, which will support voluntary compliance for all TTB taxpayers. In addition, TTB plans to address outdated and labor-intensive internal processes that are contributing to declining tax compliance, with inefficiencies detracting needed resources from performing the compliance checks and outreach required to maintain voluntary compliance. This includes plans to modernize TTB's tax system. Finally, in FY 2019, TTB plans to initiate a broad-based review of its tax return and operational report filing requirements to identify opportunities to reduce regulatory burden and increase overall tax compliance.

FY 2018 Tax Collections by State



GOAL 4: Address Cross-Border Tax Risk through Data Driven Enforcement

TTB is charged with preventing tax evasion by entities and individuals manufacturing or selling alcohol and tobacco products without the payment of all taxes rightfully due, including through diversion outside of the lawful distribution system. The diversion of these products without the payment of tax threatens federal revenues, undermines fair competition, and provides a source of funding for criminal enterprises.

The cross-border trade in alcohol and tobacco products poses a particular revenue risk and enforcement challenge due to the multiple agencies charged with regulating and enforcing import and export activity as well as challenges in tracking the movement of these commodities. Exports pose a significant revenue threat because alcohol and tobacco products may be lawfully removed from a domestic producer's premises without payment of tax and placed in a customs-bonded warehouse, foreign trade zone, or tobacco export warehouse for subsequent exportation. Some tax evasion schemes involve the unlawful diversion of these products into domestic commerce. Imports also present a revenue risk because products may be misclassified to CBP upon entry into the U.S. to evade alcohol and tobacco excise taxes. In addition, importers may attempt to evade paying the correct amount of excise tax at the time of entry by misrepresenting to CBP the quantities imported or paying at an improper rate. The risk associated with tax evasion on imported alcohol products has further increased following the passage of the craft beverage modernization provisions of the recent tax reform legislation, with importers now able to claim reduced rates or tax credits on certain qualifying products.

In FY 2018, TTB continued to use a strategic risk-based enforcement approach, which enables TTB to cover a wide universe of taxpayers and establish an identifiable enforcement presence to deter industry members and others from engaging in diversion activity and other tax evasion schemes. This involves a combination of data analytics and sound intelligence to support the identification of the highest risk activity for audit or investigation, enabling TTB to deploy its resources to address the most serious revenue threats.

Addressing these revenue risks also requires TTB to work cooperatively through interagency partnerships to maximize TTB's enforcement presence. To this end, TTB has continued its efforts to reduce the illicit trade in imported and exported alcohol and tobacco products by collaborating with U.S. Customs and Border Protection, Homeland Security Investigations, and other enforcement partners on audits, investigations, and criminal cases. TTB is also increasingly leveraging transactional data provided through the International Trade Data System (ITDS) to timely detect potential tax evasion and diversion, further supporting TTB law enforcement partnerships on tax and trade issues.

In FY 2018, TTB's continuous improvement efforts in this goal centered on the following key strategic objectives:

- Reduce Illicit Trade
- Improve Data Driven Decision Making
- Increase Data Quality & Analytical Capacity
- Enhance Risk-Based Enforcement

GOAL 4: Performance Highlights

In FY 2018, TTB made limited progress in its strategic goal to Address Cross-Border Tax Risk, due in part to competing priorities related to tax reform implementation. Additionally, with the Congressional direction to increase trade practice enforcement beginning in late FY 2017, TTB had limited enforcement resources available to make focused progress in this strategic goal in FY 2018.

Given the near-term revenue risk posed by the tax reform import-related provisions, TTB focused its efforts this year on developing and deploying analytic tools to drive the initiation of import cases. In FY 2018, using the import-related data available to TTB through ITDS, TTB continued to enhance its analytics tools to improve the Bureau's ability to detect and address tax evasion and other criminal activity relating to the import of alcohol and tobacco products.

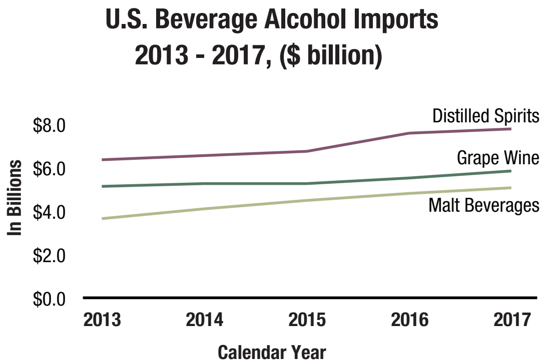
This year, TTB also coordinated with CBP to implement the import-related provisions of the new law, working cooperatively to assess the impact of these provisions on existing regulatory requirements, publish industry guidance, and develop enforcement protocols. Given that CBP is responsible for collecting taxes on imports, TTB's field enforcement divisions worked with CBP to help identify the critical risk areas, understand both agencies' data and information sharing needs, and generate joint enforcement opportunities going forward.

In FY 2019, TTB will continue to improve cooperation and information sharing with CBP, as well as other law enforcement partners. In particular, in the case of controlled groups containing both domestic and foreign producers, TTB and CBP must collaborate to ensure that the entire controlled group does not exceed the reduced rate quantity limitations available under the new law. TTB and CBP are working jointly to identify methods to timely detect potential issues and to develop enforcement protocols for developing and pursuing these types of cases.

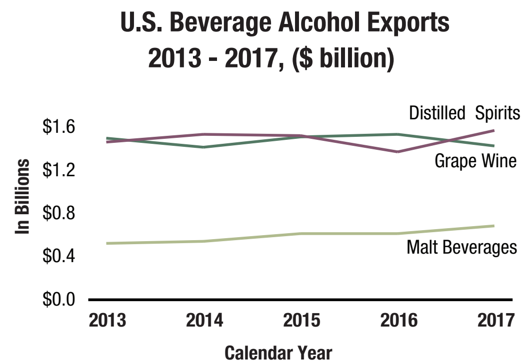
TTB will also continue to leverage interagency partnerships, such as CBP's Commercial Targeting and Analysis Center (CTAC), to improve the number and effectiveness of its analytics-driven cases. CTAC is an interagency center that provides access to a wide range of data sources about imports and exports, including real-time data on the cross-border trade of TTB-regulated products. TTB will continue to use data to identify potential tax evasion and flag shipments for inspection by CBP at the ports.

In FY 2019, TTB also intends to make progress on initiatives to improve the use of export-related information currently reported to TTB by converting it into a standardized, electronic format that can be integrated into analytics tools and models. Over the longer term, TTB will work toward updating its reporting requirements to improve the Bureau's ability to timely reconcile export-related data reported to TTB with other data sources to verify that products were actually exported.

VALUE OF U.S. ALCOHOL IMPORTS AND EXPORTS



Data Source: Department of Commerce, U.S. Census Bureau, Foreign Trade Statistics



Data Source: Department of Commerce, U.S. Census Bureau, Foreign Trade Statistics

The value of U.S. import trade in 2017, the most recent full year of data available, increased 4 percent over 2016, reaching a total of $18.9 billion. Wine, distilled spirits, and malt beverages all experienced moderate increases, with wine showing the most significant year-to-year increase at 7 percent. The five-year trend indicates continued U.S. demand for imported products.

Overseas demand for the products TTB regulates remains high, with the total value of U.S. exports for all alcohol beverages increasing 5 percent to approximately $3.8 billion in 2017 compared to the prior year. In line with increases in overall export volume, alcohol beverage exports have increased approximately 6 percent since 2013. The majority of these exports are spirits and wine products, although growth has been notable for malt beverages in recent years. Since 2013, the volume of malt beverage exports has increased more than 30 percent.

TTB has been actively engaged with U.S. trade officials in facilitating fair and open trade in alcohol beverages to support new and continuing opportunities for U.S. businesses in overseas markets. These efforts include facilitating the reduction of export certification requirements imposed by foreign countries, providing technical advice for trade agreements that facilitate trade and suspend trade barriers, and educating industry on U.S. import and export-related requirements.

In FY 2018, TTB supported USTR in multiple negotiating rounds toward a new North American Free Trade Agreement (NAFTA), which includes an Alcohol Beverages Annex to help reduce alcohol beverage trade barriers and provide more opportunities for U.S. producers and exporters to expand sales of their products in North America. The new Agreement was signed on November 30, 2018. TTB also provided technical advice in the U.S./UK Trade and Investment Working Group meetings, and continued its work with the World Wine Trade Group to advance issues of mutual interest in the international trade in wine.

TTB also continued to participate with other federal partners in efforts to facilitate collaboration and information sharing in the development of international standards for alcohol products. TTB joined the U.S. Food and Drug Administration, which leads the U.S. delegation to Codex Alimentarius committee meetings, to support the development of international standards that do not cause trade barriers for U.S. alcohol beverage exports. TTB also joined the U.S. Department of Commerce and participants from 18 countries in an international wine technical summit, to address emerging technical issues and encourage scientific collaboration between TTB, industry scientists, and other wine regulators.

GOAL 5: Equip the Workforce for Professional Growth and Development by Revitalizing TTB Training

TTB must have the technical expertise and leadership skills to meet the mission challenges of today and prepare the workforce for tomorrow. In FY 2018, TTB continued its efforts to improve the quality, relevance, and delivery of training to equip employees with critical job knowledge so they can develop in their careers as well as increase the quality of work across the Bureau.

Significantly, like many government agencies, TTB is facing an imminent retirement wave, with approximately 50 percent of TTB's workforce eligible to retire within the next five years. High retirement eligibility elevated training and professional development as a high-risk area in need of strategic attention. Further, TTB's enterprise risk assessment identified succession planning as a key risk due to a potentially high number of retirements in critical positions. Addressing this mission risk requires that TTB use a variety of human capital policies and programs, with special focus on enhancing workforce training to build specialized technical expertise as well as critical leadership skills.

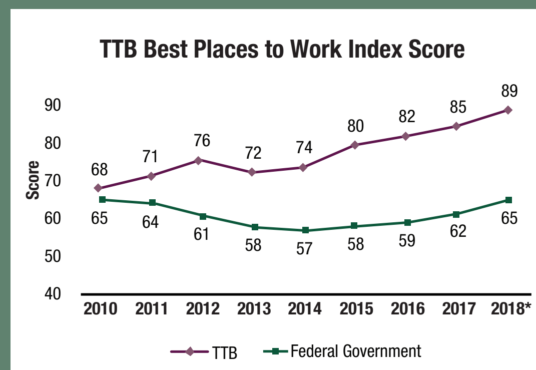
TTB took its direction for this strategic goal directly from employee feedback provided in the annual Employee Viewpoint Survey (EVS). Administered annually by the Office of Personnel Management, the EVS provides important insights into areas for improvement. Year-to-year, based on these scores, TTB has risen in the rankings of the Partnership for Public Service's Best Places to Work in the Federal Government, demonstrating TTB's responsive and effective solutions to the concerns raised by its workforce.

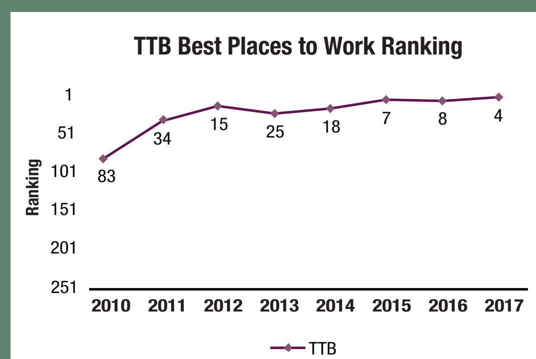
Based on this feedback, in FY 2018, TTB continued to focus on assessing and addressing individual and organizational skill gaps, employing effective strategies to increase awareness of training and development opportunities, and providing quality and effective training to ensure the workforce is prepared for current and future success.

Going forward, TTB intends to remain focused on effectively recruiting, training, and retaining a highly skilled workforce to maintain its status as an employer of choice in the federal government.

In FY 2018, TTB's continuous improvement efforts in this goal centered on the following key strategic objectives:

- Enhance Professional Expertise
- Improve Employee Engagement

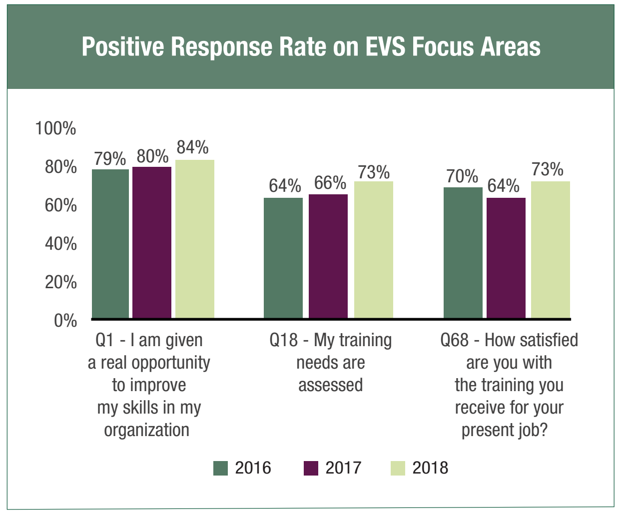




The reported scores indicate the average of three survey items related to job and organization satisfaction that identify overall employee satisfaction. FY 2018 results (*) are estimates based on initial FEVS results; final results are available at www.bestplacestowork.org.

GOAL 5: Performance Highlights

In FY 2018, TTB continued to take a proactive approach to drive progress toward its strategic goal to revitalize its training and development programs, employing a variety of initiatives to encourage and promote professional development, guided by employee feedback on the EVS.



TTB focused on revamping the Bureau's annual training assessment process, ensuring a crosscutting view of individual and organization skill gaps. These efforts will result in a comprehensive TTB training plan, reflecting input from employees, supervisors, and senior leaders, which will support the coordination, development, and prioritization of critical training courses. Further, to support effective coaching discussions, TTB conducted webinars for its staff and supervisors on effectively developing individual development plans, or IDPs, to support short- and long-term training needs and career goals.

To date, TTB's efforts to improve its assessment of training needs has resulted in marked improvement in EVS scores, with the positive response rate in this survey item increasing 9 percent over three years, from 64 percent in 2016 to 73 percent in 2018. In FY 2019, TTB plans to continue to improve its promotion of training opportunities, leveraging available online tools to increase and improve information sharing on internal training sessions on specialized program areas as well as opportunities available through partner agencies.

Further, to support employee development, TTB made substantial progress on its initiative to develop career ladder assessments to establish clear standards for advancement within each TTB job series. In FY 2019, as part of its workforce planning efforts, TTB will pilot its new tools and procedures to perform these assessments so employees have a clear line of sight as to the skills they must master to reach the next level in their position.

For those seeking leadership positions, TTB is also reinvigorating its succession planning efforts. In FY 2018, TTB implemented updates to its Emerging Leaders Program, adding an experiential learning requirement to the required classroom training. This new "capstone" requirement engages participants in leading a significant division or Bureau initiative to put acquired leadership techniques and project management skills into practice. Given the urgency of this strategic goal, TTB intends to make additional focused progress in succession planning next year, coordinating and ensuring alignment of its internal efforts with Treasury's rollout of the new Integrated Talent Management System.

In the year ahead, TTB will also work to reduce hiring times to ensure that the Bureau can effectively recruit and timely onboard new talent to meet the mission challenges that lay ahead. In FY 2018, TTB hiring times averaged 120 days from the time TTB initiated the hiring action until the employee reported for duty, well above the 80-day OPM model. Going forward, TTB will employ multiple strategies, including policy changes and additional supervisor training, to ensure it is continuously building the capacity of its workforce.

1.5 FINANCIAL HIGHLIGHTS

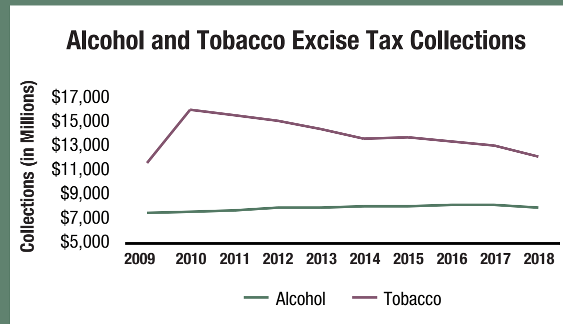
Federal Excise Tax Collections

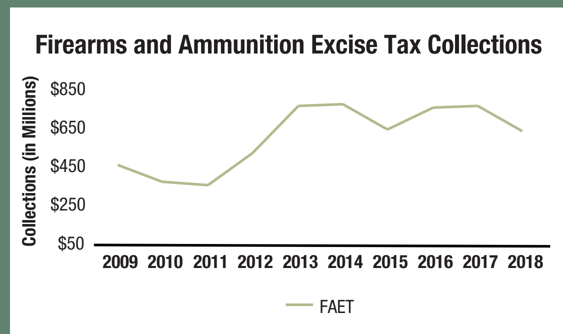
During FY 2018, TTB collected $20.6 billion in taxes, interest, and other revenues from the alcohol, tobacco, firearms, and ammunition industries. The tax for imported alcohol and tobacco products is collected by CBP.

As forecasted, tobacco revenues have generally declined since FY 2010, the first full year of collections following the 2009 federal tobacco tax rate increase. Higher prices on tobacco products have historically resulted in decreased consumption and increased illicit trade, which indicates that tobacco revenue will continue to decline. Further, recent analysis of tobacco collections has shown significant market shifts for tobacco products since 2009. The 2009 tax rate change introduced large federal excise tax disparities among tobacco products, which created opportunities for tax avoidance and led manufacturers and price-sensitive consumers to shift toward lower-taxed products. The growing popularity of electronic nicotine products, such as e-cigarettes, which are not subject to federal excise tax unless they contain tobacco, could contribute to declining tobacco revenue in the future.

The alcohol industry accounts for approximately 38 percent of the excise tax revenue collected by TTB. In FY 2018, TTB collected nearly $7.8 billion in revenue from U.S. wineries, breweries, and distilleries. In FY 2018, alcohol revenues declined 3 percent under new tax laws, which generally lowered federal excise tax rates for alcohol beverage products.

TTB also collects the federal excise taxes on firearms and ammunition. These taxes are remitted to the Fish and Wildlife Restoration Fund for wildlife restoration and research and hunter education programs. Firearms and ammunition excise tax (FAET) collections have increased from $452.7 million in FY 2009 to $624.8 million in FY 2018, an increase of $172.1 million over the past decade, or a 38 percent growth in tax revenue. FAET revenue generally aligns to sales volume.





Substantially all of the taxes collected by TTB are remitted to the Department of the Treasury General Fund. The firearms and ammunition excise taxes (FAET) are an exception. This revenue is remitted to the Fish and Wildlife Restoration Fund under provisions of the Pittman-Robertson Act of 1937. The U.S. Fish and Wildlife Service, which oversees the fund, apportions the money to state governments for wildlife restoration and research, and hunter education programs.

FY 2018 Excise Tax Collections:

Alcohol	$	7,877,214,000
Tobacco	$	12,050,283,000
FAET	$	624,802,000
Special Occupational Tax	$	273,000
Floor Stocks Tax	$	7,000
Other	$	1,006,000
Total	**$**	**20,553,585,000**

Refund, Cover-Over, and Drawback Payments

During FY 2018, TTB issued $774.1 million in tax refunds, cover-over payments, and drawback payments on taxes paid by manufacturers of nonbeverage products (MNBPs).

Cover-over Payments

Federal excise taxes are collected under the Internal Revenue Code of 1986 on certain articles produced in Puerto Rico and the U.S. Virgin Islands (USVI) that are brought or imported into the United States. In accordance with 26 U.S.C. 7652, taxes collected on rum imported into the U.S. are "covered over," or paid into, the treasuries of Puerto Rico and USVI, less the collection expenses incurred by TTB.

Additionally, as a result of the Caribbean Basin Economic Recovery Act, taxes collected on rum imported into the United States from other than Puerto Rico or USVI ("other rum") are also covered into the treasuries of Puerto Rico and USVI. The USVI also receives direct reimbursement through the Department of the Interior for rum it produces and transports to the U.S. [6]

During FY 2018, cover-over payments totaled $454.7 million, with $446.0 million paid to Puerto Rico and $8.7 million paid to USVI. Year-to-year, cover-over payments can vary depending on the rate of payments, which is established by statute.

In Puerto Rico, TTB conducts annual audits and investigations of industry members regarding the collection of revenue, application processing, and product integrity. These examinations are integral to TTB's fulfillment of its obligations to verify tax compliance and ensure the payment of all cover-over amounts due to the government of Puerto Rico.

6. The cover-over payments made to Puerto Rico and USVI based on taxes collected on "other rum" are distributed between the territories based on a formula set forth in 27 CFR 26.31.

Drawback Payments

Under current law (26 U.S.C. 5114), MNBPs may be eligible to claim a refund of taxes paid on distilled spirits used in their products. During FY 2018, drawback payments totaled $273.9 million.

For 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 TTB for analysis prior to approval of the nonbeverage claim.

FY 2018 Refund, Cover-Over, and Drawback Payments

Alcohol, Tobacco & Firearms Excise Tax Refunds	$	44,848,000
Cover-over Payments, Puerto Rico	$	446,026,000
Cover-over Payments, Virgin Islands	$	8,708,000
Drawbacks on MNBP Claims	$	273,927,000
Interest and Other Payments	$	635,000
Total	**$**	**$774,144,000**

Financial Statement Highlights

The following overview of the TTB financial statements highlights certain aspects of the financial statements for the fiscal year ended September 30, 2018.

- The Balance Sheet shows the assets, liabilities, and net position as of a point in time, in this case, as of September 30, 2018.
  - The total assets were reported as $94.7 million at the close of the fiscal year. Of this amount, $40.5 million is classified as the fund balance with Treasury. That fund balance account is the undisbursed account balance with the Treasury, primarily resulting from undisbursed appropriations.
  - The total liabilities amount reported is $70.3 million, of which total intragovernmental liabilities amount to $25.4 million. The other liabilities are classified by type, such as accrued tax refunds, payables, and other liabilities.
- The Statement of Net Cost shows the total net cost of operations at $117.0 million for the Bureau to administer its two budget activities.
  - The total net cost reported as program costs under the Collect the Revenue program was $51.5 million.
  - The total net cost reported as program costs under the Protect the Public program was $65.5 million.
- The Statement of Change in Net Position shows a total net position balance of $24.5 million, and that amount represents the unexpended appropriations from both prior periods and from the current operating cycle in addition to Cumulative Results of Operations.
- The Statement of Budgetary Resources shows the budgetary resources received and the status of those resources. For TTB, the resources are primarily annual appropriations received in the amount of $111.4 million, in addition to spending authority from collections. The offsetting collections amount was $7.2 million. Of that amount, $3.3 million is from the recovery of costs for maintaining enforcement operations in Puerto Rico.
- The Statement of Custodial Activity shows the amount of revenue received during FY 2018 compared with FY 2017, along with tax refunds, drawback on Manufacturer of Nonbeverage Products (MNBP) claims, and cover-over payments. The amount displayed shows that the total Federal excise tax revenues collected from alcohol, tobacco, firearms, and ammunition amounted to $20.6 billion. Within this total, the Bureau processed tax refunds, drawback claims, and cover-over payments in the amount of $774.1 million.
  - **Drawback claims** of $273.9 million were processed based on claims filed from MNBPs. Under current law, a drawback claim is allowed when distilled spirits on which the tax has been paid were used in the production of medicines, medicinal preparations, food products, flavors, flavoring extracts, or perfumes, which are unfit for beverage purposes.
  - **Tax refunds** and other adjustments (e.g., interest) were processed in the amount of $45.5 million.

- **Cover-over payments** were returned to Puerto Rico and the Virgin Islands in the amount of $454.7 million. Such taxes collected on rum imported in the United States are “covered over,” or paid into, the treasuries of Puerto Rico and the Virgin Islands.
- **The disposition of the custodial revenue**, after refunds, claims, and cover-over payments, nets to $19.8 billion. The vast majority was provided to the U.S. Treasury to fund the Federal Government, with the exception of the Federal firearms and ammunition Federal excise taxes. Those revenues, in the amount of $624.8 million, were remitted to the Wildlife Restoration Fund under provisions of the Pittman Robertson Act of 1937.

Limitations of Financial Statements

The principal statements have been prepared to report the financial position and results of operations of the entity, pursuant to the requirements of 31 U.S.C. 3515(b). While the statements have been prepared from the books and records of the entity in accordance with generally accepted accounting principles (GAAP) for federal entities and the formats prescribed by the Office of Management and Budget (OMB), the statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records. For fiscal years 2018 and 2017, all financial statements and notes have been audited.

TTB in Relation to Treasury’s Annual Financial Statements

The Department of the Treasury is one of 24 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 Department of the Treasury received an unmodified audit opinion on its FY 2018 financial statements. The financial activities of the Bureau are an integral part of the information reported by the Department of the Treasury. This unmodified 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.

TTB’s Annual Report includes audited FY 2018 financial statements; the Independent Auditors’ Report addresses these financial statements and reports on the Bureau’s internal controls over financial reporting and compliance with laws and regulations.

1.6 FY 2018 BUREAU BUDGET

Budget Highlights by Fund Source

This section highlights the TTB program activity in FY 2018 by funding source, whereas the Bureau's financial statements include all financial transactions in both the current year accounts and the expired accounts for the previous five years.

FY 2018 Fund Source	
FUND SOURCE:	
Salaries & Expenses FY 2018 One-Year Appropriation (P.L. 115-141 Consolidated Appropriations Act, 2018) [a]	**$106,439,000**
Obligations Incurred in FY 2018 from Current Year Appropriations	$105,848,408
Salaries & Expenses FY 2018/19 Two-Year Appropriation (P.L. 115-141 Consolidated Appropriations Act, 2018) [b]	**$5,000,000**
Obligations Incurred in FY 2018 from Current Year Appropriations	$182,328
Salaries & Expenses FY 2017/18 Two-Year Appropriation Carryover (P.L. 115-31 Consolidated Appropriations Act, 2017) [b]	**$4,072,935**
Obligations Incurred in FY 2018 from Prior Year Appropriations	$4,053,591
Salaries & Expenses FY 2017/18 (50% Prior Year Recovery) [c]	**$224,000**
Obligations Incurred in FY 2018 from Prior Year Appropriations	$224,000
Transfer in From Other Appropriations (TEOAF Strategic Support Fund)	**$1,000,000**
Obligations Incurred in FY 2018 from Current Year Appropriations	$988,940
Reimbursable Authority (Various Customers)	**$6,912,000**
Obligations Incurred in FY 2018 from Current Year Appropriations	$6,289,516

a. The 2018 Consolidated Appropriations Act included $5 million in one-year direct funding for TTB to use for the costs of accelerating the processing of formula and label applications.

b. Both the 2017 and 2018 Consolidated Appropriations Acts included $5 million in two-year direct funding for TTB to enforce trade practice provisions of the FAA Act.

c. General Provisions of the appropriations bill provide that 50 percent of the unobligated balances remaining available at the end of Fiscal Year 2017 shall remain available through September 30, 2018.

In FY 2018, TTB received $111.4 million in discretionary appropriations under the FY 2018 Consolidated Appropriations Act (Public Law 115-141) and an authorized staffing level of 507 full-time equivalent (FTE) positions. Of this amount, $106.4 million was one-year funding, of which $5 million was set aside for the costs of accelerating the processing of label and formula applications. The remaining $5 million was two-year funding (available until September 30, 2019) to enforce the trade practice provisions of the FAA Act. TTB also carried over $4 million in two-year funding from the prior year appropriation (FY 2017/2018) for trade practice enforcement. Additionally, TTB recovered $224 thousand in funding from 50 percent of the prior year (FY 2017) unobligated balances to replace obsolete IT equipment.

In FY 2018, the Bureau obligated or expended more than 99.4 percent of the $106.4 million of discretionary funding from its one-year Salaries and Expenses appropriation. TTB obligated or expended 99.5 percent of the $4 million in two-year Salaries and Expenses funding carried over from the prior year (FY 2017/2018), and 100 percent of the 50 percent recovery of the prior year FY 2017 unobligated balance. The Bureau obligated 3.6 percent of the $5 million from its FY 2018 two-year Salaries and Expenses appropriation, with the year-end balance of $4.818 million being available for FY 2019 program spending.

Anticipated Collections, Reimbursements, and Other

During FY 2018, TTB had $7.9 million in current year spending authority from offsetting collections, reimbursable activity and transfers from other agencies. Of that amount, TTB incurred obligations and expenditures of $7.3 million. The funds originated from multiple sources, including:

- Puerto Rico Cover Over Operations and Enforcement Activities represent the recoveries from the operation of the cover-over program and other enforcement activities in Puerto Rico;
- Reimbursement from the Community Development Financial Institutions Fund (CDFI) for information technology support services;
- Reimbursement from the Department of the Treasury's Executive Office for Asset Forfeiture (TEOAF) mandatory account to cover investigative expenses and a transfer of funds from the Strategic Support Fund to cover lab equipment;
- Reimbursement from Treasury Departmental Offices (DO) and Financial Crimes Enforcement Network (FinCEN) for TTB detailed employee; and
- Reimbursement from the Federal Emergency Management Agency (FEMA) for Puerto Rico Disaster Recovery.

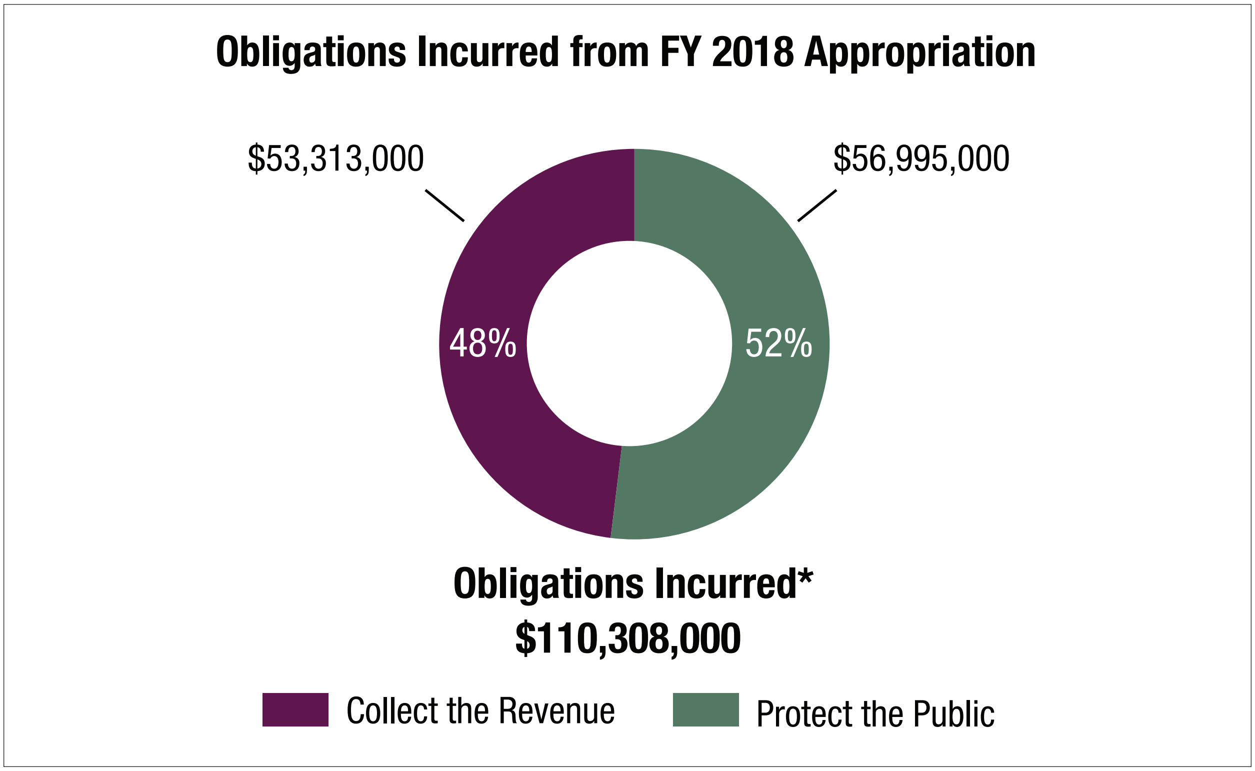
Budget Fiscal Year 2018 Anticipated Collections, Reimbursements, and Other

	Apportioned Authority	Obligations and Expenditures
Puerto Rico Cover Over Operations and Enforcement Activities	$ 3,400,000	$ 3,317,674
Community Development Financial Institutions Fund (CDFI)	$ 2,865,749	$ 2,366,727
Treasury Executive Office for Asset Forfeiture - Mandatory Account	$ 600,000	$ 575,484
Financial Crimes Enforcement Network (FinCEN)	$ 10,000	$ 5,381
Department of Justice, Bureau of Alcohol, Tobacco, Firearms and Explosives (ATFE)	$ 12,000	$ -
Federal Emergency Management Agency (FEMA)	$ 24,251	$ 24,251
Treasury Executive Office for Asset Forfeiture - Strategic Support Fund	$ 1,000,000	$ 988,940
Budget Fiscal Year 2018 Totals	**$ 7,912,000**	**$ 7,278,456**

Linking Budget and Program Spending

TTB has two primary budget activities that directly align to its mission and strategic goals: Collect the Revenue and Protect the Public. TTB uses an account code structure that provides a direct link from the Bureau budget to specific programs and project activities. To ascertain the full costs of each of these budget activities, overhead costs were allocated and combined with the direct program costs.

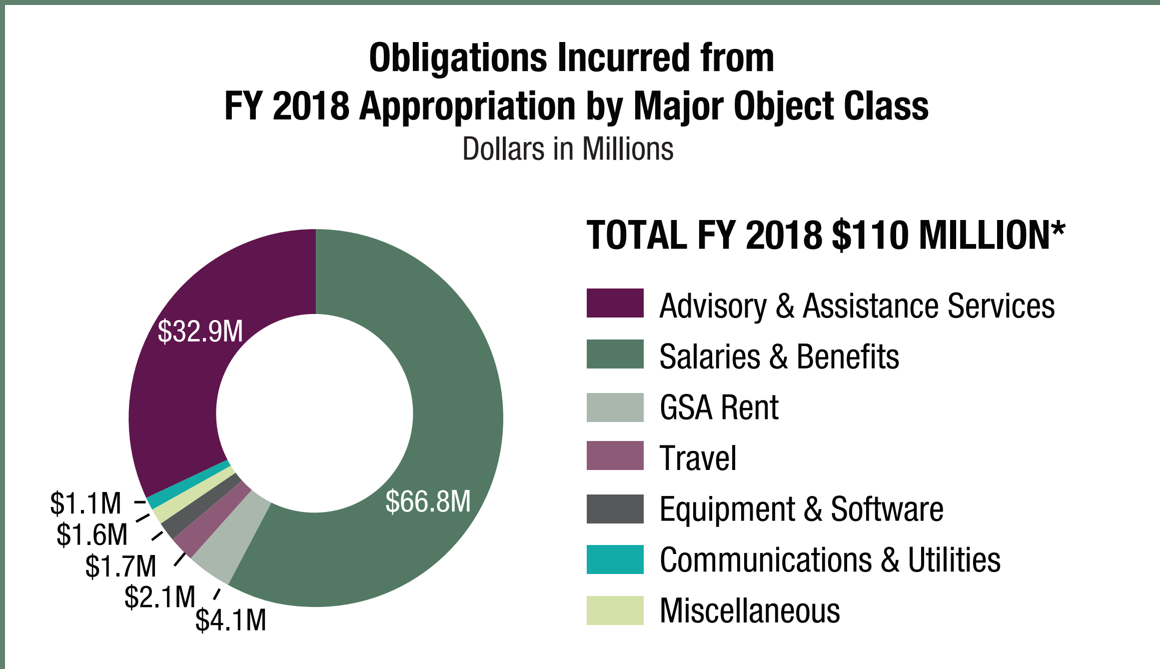
An analysis of the FY 2018 data stemming from the account code structure shows that TTB incurred obligations of $110,308,000 of its salaries and expenses appropriation, of which 48 percent was spent on the Collect the Revenue budget activity and 52 percent was spent on Protect the Public budget activity.



* Amounts include obligations incurred in FY 2018 from the FY 2018 annual appropriation; obligations incurred in FY 2018 from two-year funding (FY 17/18 and FY 18/19); and 50 percent of the prior year FY 2017 recovery.

* For presentation purposes, indirect costs are allocated from direct costs.

Spending by Major Object Class



*Amounts include obligations incurred in FY 2018 from the FY 2018 annual appropriation; obligations incurred in FY 2018 from two-year funding (FY 17/18 and FY 18/19); and 50 percent of the prior year FY 2017 recoveries.

TTB presents its obligations incurred by budget activity and program to explain the cost of delivering the services that support TTB's mission. TTB also presents specific data regarding the purchase of goods and services by major object class that support its program activities. The majority of TTB's incurred obligations (90 percent) fall into two principal major object classes: Salaries & Benefits and Advisory & Assistance Services (Contracts).

Salaries & Benefits comprise 61 percent of total obligations incurred by object class, and cover the cost of TTB's roughly 478 onboard positions in FY 2018. The Advisory & Assistance Services object class constitutes 30 percent of FY 2018 incurred obligations, and covers the cost of both commercial and intra-governmental services. The commercial contracts category is predominantly IT contracts in support of engineering, infrastructure, and support services. This category includes other commercial contracts for services such as scanning and imaging of paper submissions, lab maintenance, and web site development.

Intra-governmental services include administrative support services provided by TTB's shared service provider for human resources, accounting, travel, and procurement. Other intra-governmental services include budget items such as the costs for special agent support, background investigations, and Federal Protective Services and Departmental franchise services.

In FY 2018, the Bureau's travel costs were in support of core mission activities for audits and investigations. The remaining object classes that cover the FY 2018 obligations incurred include cost categories for rent, communications, equipment, and other miscellaneous categories.

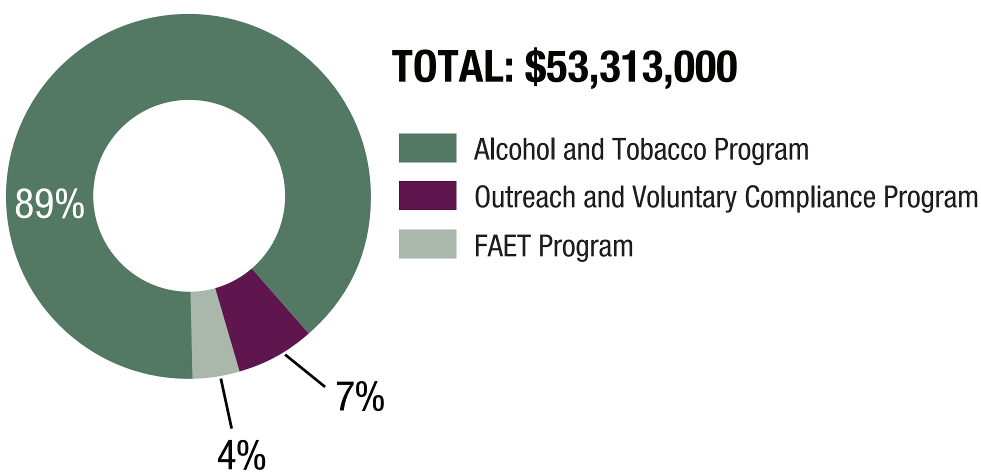
Obligations Incurred from FY 2018 Appropriations by Budget Activity

Collect the Revenue….. $53,313,000

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

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

FY 2018 Collect the Revenue by Major Program



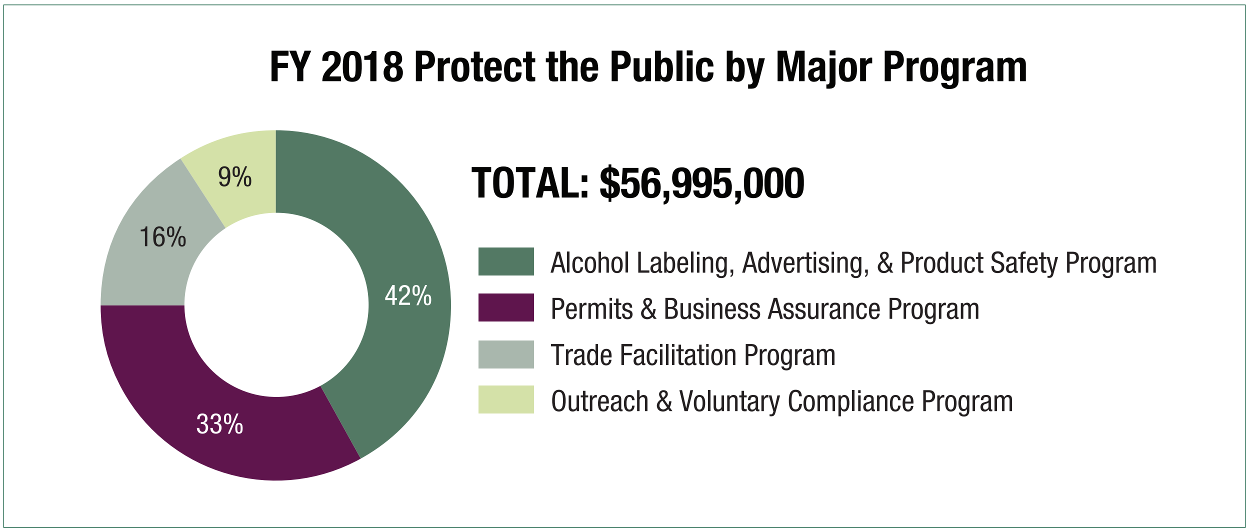
In FY 2018, TTB expended 89 percent of its Collect the Revenue resources in collecting federal excise taxes from the alcohol and tobacco industries and 4 percent in collecting FAET. These costs include activities relating to the processing of tax returns and operational reports at the National Revenue Center and the audits and investigations conducted on alcohol, tobacco, and firearms and ammunition industry members.

Costs for the Outreach and Voluntary Compliance Program totaled 7 percent of Collect the Revenue resources. These resources supported efforts to educate and train industry members regarding their obligations in the areas of tax compliance.

Protect the Public….. $56,995,000

The Protect the Public budget activity encompasses TTB's strategy to ensure industry compliance with laws and regulations designed to protect the alcohol beverage market, which TTB accomplishes by ensuring the integrity of the people who operate these businesses, of the products themselves, and of the marketplace in which they are traded.

TTB administers four programs under the Protect the Public budget activity: 1) Permits and Business Assurance; 2) Alcohol Labeling, Advertising, and Product Safety; 3) Trade Facilitation; and 4) Outreach and Voluntary Compliance.



In FY 2018, TTB expended 75 percent of its Protect the Public resources on two programs: Permits and Business Assurance (33 percent), and Alcohol Labeling, Advertising, and Product Safety (42 percent).

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

The Alcohol Labeling, Advertising, and Product Safety Program includes activities designed to ensure that beverage alcohol labels fully and accurately describe the products upon which they appear and are not misleading. It also encompasses activities relating to verifying that alcohol advertisements contain all mandatory information and do not mislead consumers. The Product Safety component involves all investigative and laboratory activities, including domestic and imported product analyses.

The remainder of the Protect the Public resources were divided between the Trade Facilitation Program (16 percent) and the Outreach and Voluntary Compliance Program (9 percent). TTB's Trade Facilitation Program includes identifying and addressing barriers to trade in the domestic and international marketplace. The Outreach and Voluntary Compliance Program promotes compliance by providing regulatory standards and guidance, encouraging use of TTB eGov filing systems, and supporting industry members through outreach and education efforts.

1.7 MANAGEMENT ASSURANCES, SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

Management Assurances

TTB provides reasonable assurance that the Bureau's internal controls to support reliable financial reporting, effective and efficient programmatic operations, and compliance with applicable laws and regulations, and that the Bureau's financial management systems comply with Federal financial management systems requirements, applicable Federal accounting standards promulgated by FASAB, and the U.S. Standard General Ledger (USSGL) at the transaction level. This overall determination is based on past and current practices, an improved internal controls environment, scrutiny by external audit sources, internal evaluations, and administrative and fiscal accounting system enhancements.

During FY 2018, TTB also applied its custom risk management tools to its Revenue Accounting Section to identify risks in the accounting and tracking of TTB's annual federal excise tax collections and to the National Revenue Center, with a focus on its key business processes. Based on these tools, TTB has determined that adequate internal controls are in place to mitigate risk to those operations, and the overall risk of fraud, waste, and abuse is "low."

TTB received an unmodified audit opinion following the independent, full-scope financial statement audit that was conducted For FY 2018. Additionally, the independent auditor's report on internal control over financial reporting identified no significant or material weaknesses in TTB's internal controls.

Accounting Systems and Controls

During FY 2018, TTB contracted with the Bureau of the Fiscal Service's Administrative Resource Center (ARC) to handle its administrative, human resources, procurement, travel, and financial functions. The ARC accounting system, known as Oracle Federal Financials, is certified by the Financial Systems Integration Office (FSIO) requirements and is in full compliance with Treasury reporting requirements; it also meets requirements under the Federal Financial Management Improvement Act (FFMIA).

The FY 2018 audit of Treasury's consolidated financial statements, which covered the financial management systems of our service provider, ARC, did not identify any instances in which ARC's financial management systems did not substantially comply with FFMIA. Specifically, no instances were identified in which ARC's financial management systems did not substantially comply with: 1) Federal financial management systems requirements, 2) applicable Federal accounting standards, and 3) the United States Government Standard General Ledger at the transaction level.

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. The various administrative modules integrated with the TTB financial system have proven to accurately capture Bureau financial data and provide reliable information to management to inform decision-making.

Federal Managers' Financial Integrity Act of 1982 (FMFIA)

The FMFIA requires Federal agencies to perform ongoing evaluations and reports of the adequacy of the systems of internal accounting and administrative control of each executive agency, and for other purposes. To perform this, the Secretary of the Treasury depends upon information from component heads regarding their management controls. The TTB places reliance on each office to maintain a cost-effective system of controls to provide reasonable assurance that Government resources are protected against fraud, waste, abuse, mismanagement, or misappropriation.

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 Enterprise Risk Management and Internal Control, the Bureau, in concert with the Department, developed and implemented an extensive testing and assessment methodology that identified and documented internal controls over financial reporting on our revenue accounting activities.

This increased emphasis on management controls has had a positive impact on programs and enabled the Bureau to achieve the intended results. The process also ensures that the utilization of resources is consistent with mission priorities and that program and resources are being used without waste, fraud, or mismanagement. Also, in addition to the A-123 review, TTB conducted a series of office reviews during FY 2018 that included an extensive review of administrative and internal controls.

1.8 BUREAU CHALLENGES

TTB plans to revisit the vulnerability and risk management tools that are used each year to monitor the internal controls over tax collections to ensure these documents reflect the key business processes in operation at the National Revenue Center and fully support our internal controls program at the Bureau. As systems and businesses processes change, it is important that TTB update the tools used to monitor its tax processing activities.

PART II
ANNUAL PERFORMANCE RESULTS

2.1 PERFORMANCE OVERVIEW

Through its suite of key performance measures, TTB demonstrates its ability to effectively administer the tax code and facilitate commerce through prompt, reliable service delivery for required federal approvals. TTB presents its performance information by mission area and strategic goal. Detailed performance information is discussed by the key strategic objectives that drove TTB's continuous improvement efforts in FY 2018.

In FY 2018, TTB met or exceeded the performance targets for four of its 15 measures, including several new indicators to support data-driven decision making in support of TTB's mission. Despite falling short in many of its annual performance goals in FY 2018, TTB made substantial performance improvements in many key service and operational measures, indicating that the Bureau may near or meet its targets in the year ahead.

Based on external factors and the results achieved this fiscal year, TTB reviewed its performance goals and set FY 2019 targets that reflect workload projections, resource levels, planned business process improvements, and anticipated impacts from technology enhancements.

To meet its performance goals in FY 2019, TTB will implement an aggressive strategic agenda that integrates new technology, streamlining initiatives, and targeted efforts in both outreach and enforcement. Further, under its updated FY18-22 strategic plan, TTB continues to develop the appropriate suite of measures to provide evidence of progress toward its strategic and priority goals.

All performance results are subject to internal management review and periodic audit by the Department of the Treasury. TTB transitioned to a new data-reporting platform in FY 2018 that enabled the detection of several data quality issues. Additional data validations are underway, and any updates will be reported in FY 2019.

FY 2018 Performance Measure Status	
Performance Targets Met	4
Performance Targets Not Met	11
Total Performance Measures	**15**

2.2 PROTECT THE PUBLIC PERFORMANCE

In FY 2018, TTB met three of its nine annual targets for the performance measures under its Protect the Public mission. TTB uses these measures to monitor its progress toward meeting its strategic and priority goals to facilitate lawful commerce for the protection of U.S. businesses and consumers. These measures help TTB monitor the degree to which it is meeting the service standards it establishes for permit, label, and formula applications; the impact that electronic filing initiatives are having on improved service delivery; the error rate on applications; and the level of satisfaction that users have with TTB's electronic filing systems.

GOAL 1: BUSINESS QUALIFICATION

TTB protects federal revenues and U.S. consumers by screening permit applications to ensure only qualified persons engage in the alcohol, tobacco, firearms, and ammunition industries. TTB's strategic goal to improve its business qualification program calls for TTB to streamline permit applications to reduce applicant burden and make effective use of technology to minimize application errors and improve processing times.

Performance Discussion by Strategic Objective

Improve Reliable Service

TTB monitors its timeliness in processing permit applications through its measure of the *Percentage of Permit Applications Processed within Service Standards*. As businesses rely on accurate information related to TTB service delivery in their operational planning, this measure provides important data related to a key outcome for TTB and its stakeholders.

In recent years, the increased volume of submissions, particularly in the more complex application types related to producing alcohol beverage products, has caused approval times to increase. This year, TTB received more than 9,000 applications, continuing the trend and reaching an historic high. As a result, approval times spiked to an average of 122 days in FY 2016, and over 200 days for alcohol producer applications, creating potential financial hardships for these applicants. In FY 2018, to build on the performance improvements achieved in FY 2017, TTB and Treasury established an Agency Priority Goal to improve the timeliness and consistency of service levels by reducing average processing times for new permit applications by 20 percent and achieving its service standard for 85 percent of applicants.

In FY 2018, TTB made substantial progress toward this goal, reducing average processing times by an additional 35 days, from 96 in FY 2017 to 61 in FY 2018, well over its targeted reduction. Further, TTB met its 75-day service standard for 71 percent of original permit applications, a significant year-to-year improvement, but still below the 85 percent performance target. TTB has achieved these gains through several crosscutting initiatives to update its permitting business process. These initiatives included policy, workflow, and system changes, as well as strategic workforce management. These efforts have enabled TTB to manage the backlog of applications, reduce overall approval times, and improve consistency in its service levels.

However, achieving and sustaining these improvements by the end of FY 2019 remains a challenge. Over the course of the fiscal year, performance trended negatively in the percent of applications processed within the service standard, dropping from a high of 78 percent in Q1 to 64 percent in Q4. Over the same period, average processing times also increased significantly for certain alcohol manufacturer types, most notably for breweries and wineries. Several factors contributed to these performance challenges, most notably the redeployment of staff to critical testing and other work to support the Permits Online release.

In FY 2019, TTB intends to drive toward its priority goal targets through a combination of process improvements and ongoing enhancements to Permits Online. TTB will launch initiatives to streamline critical permit applications processes through policy review and process improvements, including enhanced standard operating procedures. TTB will also focus on managing its pending application backlog by developing new permit applications dashboards with key metrics to help TTB manage workload through increased visibility into the status and age of pending applications. These new analytics tools and reports will also support the active balancing of training and process improvement initiatives to maintain performance.

Increase Voluntary Compliance

TTB measures the *Initial Error Rate on Permit Applications*, which tracks how many applications are submitted either incomplete or with errors, to develop directed strategies to increase the number of first-time permit application approvals and maintain timely service. TTB's ability to meet its service standard for new permit applications is challenged by the continued high error rate for initial submissions, which remained around 80 percent as of Q3 FY 2018, the last quarter of validated data. Errors increase the overall workload volume, requiring extensive back-and-forth with applicants to ensure the application is complete and verified. To help address this, in September 2018, TTB partnered with experts in Treasury to complete a Lean Six Sigma review of its process for returning permit applications for corrections. This effort is intended to improve both error rates and approval times by streamlining the application return process and standardizing internal procedures. In FY 2019, to make progress toward its target of 25 percent, TTB will work toward implementing the identified process improvements, including increased standardization, effective workload balancing, and potential system enhancements, to provide greater consistency in reviews and improve industry interactions with TTB.

Optimize Electronic Systems

According to its measure of the Percent of Electronically Filed Permit Applications, which tracks the electronic filing rate for new business applications, TTB received 86 percent of permit applications via Permits Online in FY 2018. TTB attributes the year-to-year increase to TTB.gov improvements to better direct applicants to the online filing system. TTB expects this trend to continue following the release of the redesigned Permits Online system, rolled out in July 2018, which includes improved guidance for first-time filers to reduce errors on applications that delay processing times as well as a simplified method for amending an existing permit that replaces the current paper-based process. These system changes, combined with the extensive outreach and online training for industry provided with the release, will support TTB in achieving its targeted electronic filing rate of 90 percent in FY 2019 as well as its 25 percent target for initial errors on permit applications.

In FY 2019, TTB plans to refocus its customer satisfaction measure to focus on *Customer Satisfaction with the Permits Online eGov System*, rather than its previous measure of satisfaction with the permitting process overall, as it aligns more closely to TTB's current strategy. The new measure is derived from a subset of questions from the existing e-mail survey to assess how satisfied businesses are in applying for a permit or registration through Permits Online. Satisfaction rates in FY 2018 increased 9 percent in one year, from 68 percent in FY 2017 to 77 percent in FY 2018. Although below the annual target of 80 percent, TTB expects the positive trend to continue in line with overall improvements in service levels, and as users adapt to the redesigned system and prior paper filers are auto-linked to their new electronic records, enabling the filing of amendments electronically. TTB will also implement new tools and process changes to improve the level of service provided to customers seeking live assistance with the permit application process via TTB's call center.

Update Regulatory Requirements

Broader changes to TTB's application requirements, many of which will require rulemaking to fully implement, are underway and may be required before TTB can achieve and sustain its targeted performance levels. In FY 2018, TTB made substantial progress on an initiative to modernize permit applications. Using a multi-disciplinary team, TTB reviewed its permit requirements and developed recommendations to modernize and streamline the applications based on TTB's statutory responsibilities and enforcement needs. In FY 2018, these recommendations were approved and the first round was implemented as part of Permits Online 5.0, significantly shortening the Personnel Questionnaire and eliminating the Environmental Information form.

TTB intends to propose additional regulatory changes in FY 2019, which will significantly reduce the burden associated with the permit application process, both for industry as well as TTB. These actions will be informed by industry proposals submitted in response to the Department of the Treasury's June 2017 Request for Information, which asked the public to submit views and recommendations for Treasury regulations that can be eliminated, modified, or streamlined to reduce burdens. In addition to reducing compliance burdens, simplifying and clarifying TTB's regulatory requirements should also result in a reduced volume of initial permit applications submitted with errors, which would contribute to improved approval times.

Ensure Level Playing Field

TTB protects federal revenues and U.S. consumers by screening permit applicants to ensure only qualified persons engage in the alcohol, tobacco, firearms, and ammunition industries. This includes performing investigations into high-risk applicants. For FY 2019, TTB will continue to update its procedures to screen permit applicants, refining the risk criteria and tools used to vet applicants for suitability to hold a federal permit. TTB will use the results of its field investigations to inform its risk factors to improve the effectiveness of its business qualification process. Use of statistical sampling and risk-based screening will also help TTB manage workloads and improve service delivery.

Goal 1: Key Success Indicators

Measure/ Indicator	Strategic Objective Alignment	FY 2014 Actual	FY 2015 Actual	FY 2016 Actual	FY 2017 Actual	FY 2018		FY 2019 Target	Results vs Target
						Actual	Target		
Percentage of Permit Applications Processed within Service Standards (75 days)	SO 7	58%	47%	32%	48%	**71%**	85%	85%	Unmet
Initial Error Rate for Permit Applications[a]	SO 2	73%	77%	81%	83%	**80%**	25%	25%	Unmet
Percent of Electronically Filed Permit Applications[b]	SO 15	80%	84%	81%	84%	**86%**	87%	90%	Unmet
Customer Satisfaction Rate with TTB Permitting Process[c]	SO 15	BASE	76%	71%	80%	**83%**	80%	DISC	Exceeded
Customer Satisfaction Rate with eGov Systems - Permits Online	SO 15	BASE	64%	54%	68%	**77%**	80%	80%	Unmet

Key: DISC - Discontinued and BASE - Baseline

a. Prior year data revised due to errors in methodology related to wholesaler and importer applications.

b. Revised actuals for fiscal years 2016 and 2017 due to error in source data.

c. Discontinued and replaced with new measure of user satisfaction with TTB's electronic filing system.

GOAL 2: Labeling Modernization

TTB protects U.S. consumers by ensuring that the alcohol beverage products sold at retail outlets are properly labeled and comply with federal production standards. TTB's strategic goal to modernize its labeling program calls for the Bureau to provide timely and consistent service, reducing the burden of re-submissions on industry and TTB, and to employ risk-based market sampling and investigations to ensure product integrity and fair competition.

Performance Discussion by Strategic Objective

Improve Reliable Service

In FY 2018, TTB received approximately 195,000 label applications and 17,000 formula applications, which reflects the ongoing expansion of the alcohol beverage industry. Given the importance of timely TTB approvals and the negative impact that delays have on U.S. businesses, TTB monitors its ability to provide timely and consistent service through its measure of the *Percentage of Alcohol Beverage Label and Formula Applications Processed within Service Standards*. TTB combines label and formula applications in this measure given the interdependent nature of these approvals.

Significant increases in label and formula submissions that began in the fourth quarter of FY 2017 continued through FY 2018, although the rate of growth slowed in the latter half of the fiscal year. As of year-end, both labels and formulas increased by approximately 15 percent or more compared to the same time in FY 2017. Although all alcohol beverage commodities contributed to these increases, malt beverage submissions increased at the fastest rate, up 25 percent in labels and nearly 60 percent in formulas compared to last year. In response to these increases, and given resource constraints, TTB revised its service standards for beverage alcohol labels and formulas from 10 days to 15 days in FY 2018.

Despite increased submission volume, TTB met or nearly met its FY 2018 performance target to process 85 percent of label and formula applications within its 15-day service standard. Supported by the continuation of funding in the enacted 2018 budget directed toward accelerating approval times, TTB invested in a combination of staff and system upgrades, helping TTB to manage the influx of submissions in FY 2018 and largely maintain the service improvements achieved during FY 2017. Formula processing exceeded the 85 percent target, with 91 percent of beverage formula applications processed in 15 days or less. This was achieved through effective monitoring and management of the application backlog combined with strategic workforce management to efficiently deploy staffing. However, despite employing similar strategies, label performance fell just short of target, with 84 percent of label applications meeting the 15-day standard, due to staffing turnover in labeling specialists this year.

TTB expects to maintain its 15-day service standard for label and formula applications in the coming year, and will work toward its FY 2019 target of meeting this standard for 85 percent of applications through its strategic initiatives to upgrade its online systems and guidance, with particular focus on reducing errors on applications that increase total workload and challenge timely processing.

Update Regulatory Requirements

In recent years, to help address processing delays, TTB has used its authority to implement risk-based policy changes to reduce the volume of label and formula applications without compromising TTB's market protection role. These changes successfully reduced the volume of label and formula submissions in the short-term; however, in FY 2018, industry growth combined with market trends toward products that require an approved formula prior to production have resulted in increased submissions that have offset these reductions. Going forward, TTB will focus on its complementary strategy to reduce total workload volume by addressing errors on label and formula applications, which requires TTB to re-review submissions and delays timely approvals.

Further, in FY 2018, TTB continued its initiative to modernize federal labeling regulations to reflect current TTB policy and modern industry practices. Through rulemaking, TTB will propose to consolidate, clarify, and simplify labeling requirements; the regulatory proposal will also reflect industry responses to Treasury's June 2017 Request for Information. Additional guidance to industry, as well as planned burden-reducing measures, should contribute to more complete and accurate label and formula applications. TTB anticipates publishing a notice of proposed rulemaking early in FY 2019.

Increase Voluntary Compliance

Application errors are a key driver of label and formula processing times, as additional review is required for each resubmitted application. TTB relies on its measure of the *Initial Error Rate of Label and Formula Applications* to monitor error trends and evaluate the effect of system and guidance enhancements on first-time approvals. In FY 2018, approximately 40 percent of label and formula applications were submitted incomplete or with errors, falling short of the targeted performance level of 25 percent, and demonstrating little year-to-year progress. Given these error rates, and the resulting re-review of submissions, TTB processed more than 298,000 label and more than 26,000 formula applications in FY 2018.

In FY 2018, TTB continued to use a data-driven strategy to address frequent application errors, with the goal of increasing the number of applications approved on the first submission. Going forward, TTB intends to reduce error rates by expanding and improving the system-based help and online guidance features that it implemented this year. These include detailed examples of compliant label and formula submissions by commodity, as well as web-based tools to support industry members in determining if their products require TTB formula approval prior to filing a label. TTB also plans to continue to engage with industry trade associations to enhance its strategies for reducing targeted application errors. Further, TTB intends to update the information on processing times available to industry on TTB.gov. The new web pages will publish TTB's label and formula service standards to external customers and provide data on how error rates negatively affect processing times to incentivize correct submissions.

Optimize Electronic Systems

Sustaining service levels will also be supported through ongoing enhancements to TTB's eGov systems. Throughout FY 2018, TTB deployed system enhancements to COLAs Online and Formulas Online, focusing its efforts on compliance validations and embedded help features to address the most frequent application errors. COLAs Online system releases targeted both application and label compliance errors and, if the changes prove effective, may have a combined result of achieving sustained reductions in total label errors of up to 3 percent. Data from the latter half of FY 2018 indicates progress, with label errors falling below 40 percent for the first time at mid-year and remaining there through the end of the year. System releases to date have been less successful in reducing formula application errors, and TTB plans to develop new industry engagement strategies in FY 2019 to test and validate its guidance and system enhancements.

To be successful in this strategy, TTB must maintain high rates of electronic filing for label and formula applications. According to its measure of the *Percent of Electronically Filed Label and Formula Applications*, TTB now receives 98 percent of applications via COLAs Online and Formulas Online, indicating that continued focus on system validations is warranted and will support performance goals in increasing accurate applications and accelerating approval times. In FY 2019, TTB will continue to make iterative enhancements to COLAs Online and Formulas Online, informed by user testing and feedback, which will support advanced help features and system-based validations to reduce application errors.

System updates released in FY 2018 appear to have positively influenced user satisfaction with TTB's electronic filing systems. Through its new measure of *Customer Satisfaction with COLAs Online and Formulas Online*, TTB monitors user satisfaction with the process of submitting an application through its eGov systems, collecting responses via e-mail survey to assess factors such as ease of access, guidance, and overall experience. In FY 2018, satisfaction rates increased significantly, from 70 percent to 81 percent, in one year. This reflects TTB's effective use of user experience testing to improve the quality and usability of its systems. In FY 2019, TTB expects that planned system improvements and regular review of survey feedback will help TTB continue to exceed its user satisfaction target of 80 percent and continue to attract users to its online systems to maintain electronic filing rates above its target of 95 percent.

Enhance Risk-Based Enforcement

After alcohol beverages enter the marketplace, TTB surveys products in the marketplace to evaluate compliance and determine where issues may exist. TTB checks for all required label information and determines if there is a valid COLA. TTB also sends the products to its laboratories to undergo chemical analyses to evaluate whether the label information accurately reflects the content of the container.

In most cases, TTB notifies the industry member about a violation and works with them to bring the product into compliance. For more significant violations, TTB conducts field investigations and ensures that corrective action is taken by the industry member. The most frequent violations in FY 2018 related to disparities between the actual alcohol content of certain wine, spirits, and malt beverage products and the alcohol content stated on the label of those products, as well as discrepancies in the non-mandatory information between the approved label and the label on the bottle.

In FY 2019, the program will continue to include both a random and risk-based sample. The risk-based sample will allow TTB to evaluate products that may have a higher probability of being non-compliant based on certain risk factors. These results will be used to help inform decisions on enforcement actions and priorities, and will allow the Bureau to employ its investigative resources in a more efficient and effective manner.

Goal 2: Key Success Indicators

Measure/ Indicator	Strategic Objective Alignment	FY 2014 Actual	FY 2015 Actual	FY 2016 Actual	FY 2017 Actual	FY 2018		FY 2019 Target	Results vs Target
						Actual	Target		
Percentage of Alcohol Beverage Label and Formula Applications Processed within Service Standards[a]	SO 7	71%	80%	80%	62%	**84%**	85%	85%	Unmet
Initial Error Rate for Label and Formula Applications	SO 2	39%	42%	44%	43%	**40%**	25%	25%	Unmet
Percent of Electronically Filed Label and Formula Applications	SO 15	93%	94%	97%	98%	**98%**	95%	95%	Exceeded
Customer Satisfaction Rate with eGov Systems - COLAs Online	SO 15	71%	71%	74%	82%	**81%**	80%	80%	Exceeded
Customer Satisfaction Rate with eGov Systems- Formulas Online[b]	SO 15	53%	48%	58%	70%	**81%**	80%	80%	Exceeded

a. Service standards are set annually based on TTB analysis of submission volume, error rates, and resource levels. For FY 2019, TTB established new service standards of 15 days for both labels and formulas based on a significant spike in submissions. In FY 2017, the service standard was 10 days for both labels and formulas. Between FY 2014 – 2016, the service standard was 30 days for labels and 45 days for formulas.

b. Results represent beverage alcohol formula filers; nonbeverage alcohol formula filers are excluded.

2.3 COLLECT THE REVENUE PERFORMANCE

In FY 2018, TTB did not meet any of its annual targets for the performance measures under the Collect the Revenue mission. TTB combines measures and indicators to demonstrate the effectiveness and efficiency with which TTB operates its tax administration function, including through facilitating voluntary compliance, as well as its field enforcement efforts to address critical threats to federal revenues.

GOAL 3: Tax Compliance

High voluntary compliance results in more efficient revenue collection and supports effective industry regulation. TTB's strategic goal to improve tax compliance calls for the Bureau to update its tax filings, processes, and technologies; enhance its capacity to identify and address non-compliance through analytics and other detection tools; and continue to improve its taxpayer education and outreach.

Performance Discussion by Strategic Objective

Increase Voluntary Compliance

Fostering voluntary compliance among taxpayers is a primary tax administration strategy for TTB; however, compliance rates in timely tax filings continued to perform below target in FY 2018. The *Percent of Voluntary Compliance from Large Taxpayers in Filing Tax Returns and Payments Timely* is a key performance metric that shows the rate of compliance by large taxpayers (i.e., those that pay more than $50,000 in annual taxes) in voluntarily filing their tax payments on or before the scheduled due date. In FY 2018, TTB achieved a compliance rate of 85 percent from its large taxpayers, which fell below the performance target of 90 percent. Although TTB analysis indicates that this trend does not represent a significant revenue risk in terms of a percentage of total revenue collections, non-compliance undermines the level playing field, which is particularly critical for the small producers who comprise the majority of TTB taxpayers.

As the taxpayer universe grows, and workloads increase, TTB has faced resource challenges in maintaining industry compliance. Over time, with limited resources, TTB outreach efforts to educate industry members on tax requirements have also decreased. More recently, TTB has also faced competing enforcement priorities, including renewed efforts to address widespread illicit trade practice activity in the alcohol industry, with directed funding for this purpose enacted in TTB's budget in FY 2017 and FY 2018.

Further, developing strategies to address these trends has been challenging, as current performance measures calculate compliance rates by filing rather than taxpayer. In FY 2018, under its updated strategic plan, TTB began developing new measures to support TTB's tax compliance strategic goal, which will calculate compliance rates by taxpayer, and will incorporate additional stratifications by tax liability. The new suite of taxpayer compliance metrics will also differentiate between different types of compliance issues (i.e., non-filing, late filing, underpayment, and underreporting). By enhancing its data-driven and risk-based approach, TTB will be able to develop more targeted strategies to better align its resources to the most critical revenue risks.

In FY 2019, improving compliance rates will remain a priority for TTB; however, TTB expects to continue to face challenges in making progress on planned improvement initiatives while also keeping up with the daily workload, which continues to increase in line with industry expansion. Plans over the next year include refining TTB's procedures for risk-based account reviews, which will include updates to internal business rules and processes, supported by new analytics tools, to address identified non-compliance. TTB also plans to improve its education and outreach strategies to drive compliant behavior across TTB taxpayers, including publishing new online guidance, as well as reviewing TTB's approach to online and in-person seminars to better coordinate resources and increase impact.

Enhance External Communication & Outreach

TTB faced significant challenges in FY 2018 in making progress toward its tax compliance goal. On December 22, 2017 the Tax Cuts and Jobs Act (Public Law 115-97) was signed into law. The craft beverage modernization provisions of the law took effect on January 1, 2018, and required immediate and extensive coordination with internal and external stakeholders to develop policy positions and an enforcement approach. The legislation adjusted the effective tax rates for alcohol beverage products and extensively changed other provisions related to alcohol excise taxes.

To facilitate the alcohol industry's understanding of and compliance with the new law, TTB developed a dedicated section on TTB.gov to provide a summary of the relevant provisions as well as FAQs to respond to questions received from industry. As part of a coordinated outreach strategy, TTB updated the website on a rolling basis as additional guidance was available, which was also promoted through the TTB newsletter, feature articles on TTB.gov, and interviews with industry press and trade associations. In total, TTB published 3 Industry Circulars, 1 Procedure, and 36 Frequently Asked Questions in FY 2018, all of which provided necessary guidance to support industry in operating in compliance with the new law.

Improve Policies, Processes, & Documentation

The *Amount of Revenue Collected per Program Dollar* measure uses annual collections figures and the actual expenditures and obligations for collection activities to quantify the efficiency of the TTB tax collection program. In FY 2018, TTB achieved a return on investment of $369 for every program dollar spent on collection activities, below the annual performance target of $400. TTB sets its performance target based on historical trends and other predictors that influence consumer behaviors. The year-to-year decline in performance represents continued declines in tobacco revenue that, after peaking in FY 2010 following the significant tax rate increases enacted in 2009, have steadily declined in line with shifts in consumption patterns, product manufacturing, and trade. Annual alcohol revenue is also trending down, likely due to the recent tax reform legislation that lowered effective tax rates across all commodities and expanded eligibility for reduced rates and credits. In total, revenue collections are down 6 percent from FY 2017; however, as the law took effect in January 2018, the full impact of these provisions may not yet be known.

Going forward, TTB will continue to monitor its return on investment for its Collect the Revenue activities as a key indicator; however, it will be discontinued as a performance measure, whereby TTB establishes an annual target, given the substantial influence of external factors on performance results.

Optimize Electronic Systems

TTB will also focus on improving tax compliance through tax system modernization. TTB relies on Pay.gov, a Bureau of the Fiscal Service system designed for government payments, for the electronic filing of tax returns and operations reports. TTB's two measures to monitor the *Electronic Filing Rates for Tax Returns and Operational Reports in Pay.gov* support ongoing efforts to reduce paper filings. E-filing rates for tax returns and operations reports remain well below target, especially compared to other TTB e-filing systems. These low rates – which ended the year at roughly 40 percent of tax returns and operational reports submitted electronically – impede TTB's ability to timely and effectively detect and address non-compliance and add costs to making the data available for routine reconciliation or advanced analytics. Additional Pay.gov promotion may improve e-filing rates; however, more significant tax system modernization is likely required for TTB to reach its target.

Going forward, and informed by planned process improvement reviews, TTB intends to implement phased releases to its tax system, with the goal of improving the external interface for electronic tax filings and enhancing internal workflows to support TTB tax administration. However, the pace and scale of system modernization efforts are dependent on TTB funding levels. Recognizing the importance of timely identifying delinquencies, issuing assessments, and confirming collections, TTB focused its first round of system modernization on improving its delinquent tax processes. In FY 2018, TTB deployed a system release that streamlines the tax assessment and collection processes, incorporating penalty and interest calculations and eliminating the need for data entry. Subsequent system releases will introduce automation to address inefficiencies related to posting paper tax filings and amended tax returns, which are currently time-intensive, manual processes. Combined, these releases will support streamlined processes, which will allow for more timely detection of non-compliance and enable TTB specialists to focus on higher priority, analytical work rather than manual processes.

Modernizing TTB's tax system is particularly critical in light of recent tax reforms. Effective implementation of the new tax provisions requires a data-driven approach to monitor compliance and timely identify potential tax evasion. At present, resource-intensive manual analysis and reconciliation of multiple reports and returns, in combination with other data sources, by specialists, auditors, and investigators is required to detect and address high-risk activity. TTB will need to enhance its tax systems and analytics tools to facilitate TTB's use of its tax information, in combination with other data sources such as CBP import and export data, to more effectively target its limited resources to known evasion schemes.

Update Regulatory Requirements

Due to the labor-intensive nature of TTB's current tax administration processes, and to ensure that the resources dedicated to tax administration are commensurate with revenue risk, TTB plans to initiate a broad-based review of its tax return and operational report filing requirements. The goal of the review is to generate recommendations to significantly streamline requirements to decrease both the amount of information collected as well as the frequency with which it is collected. The review will also incorporate any necessary changes to TTB requirements to address new risks to underreporting caused by recent tax reforms.

This multi-year initiative, which TTB intends to launch in FY 2019, will require form and regulatory updates as well as potential statutory changes, which would be needed to change the filing frequency for tax returns and payments. TTB believes it can update its requirements in a manner that will reduce burden on industry and TTB while also boosting overall tax compliance, particularly if developed in tandem with a modernized tax system.

In the interim, TTB will continue to make modifications to its existing tax requirements on an incremental basis, including through a planned final rule to synchronize the filing frequency of reports and returns for quarterly and annual filers, as proposed in the FY 2017 rulemaking issued to implement the Protecting Americans from Tax Hikes Act of 2015 (TTB Notice No. 167).

Goal 3: Key Success Indicators

Measure	Strategic Objective Alignment	FY 2014 Actual	FY 2015 Actual	FY 2016 Actual	FY 2017 Actual	FY 2018 Actual	FY 2018 Target	FY 2019 Target	Results vs Target
Amount of Revenue Collected Per Program Dollar[a]	SO 5	$ 457	$ 437	$ 414	$ 406	**$ 369**	$ 400	N/A	Unmet
Percent of Voluntary Compliance from Large Taxpayers in Filing Tax Returns and Payments Timely[b]	SO 2	90%	88%	87%	85%	**85%**	90%	DISC	Unmet
Percent of Electronically Filed Tax Returns - Pay.gov	SO 15	32%	33%	34%	35%	**38%**	50%	50%	Unmet
Percent of Electronically Filed Operational Reports - Pay.gov	SO 15	37%	38%	39%	40%	**42%**	50%	50%	Unmet

Key: DISC - Discontinued

a. Beginning in FY 2019, results will be reported as an indicator rather than a performance measure; as such, no target is established for FY 2019.

b. TTB is developing new measures to evaluate and monitor taxpayer compliance for FY 2019, which will calculate compliance rates on a taxpayer basis, rather than a per filing basis; TTB will also formally add a measure of the compliance rate for operational reports.

GOAL 4: CROSS-BORDER TAX RISK

The cross-border trade in alcohol and tobacco products poses a significant risk to federal revenues, with enforcement challenges created by the multiple agencies involved in regulating import and export activity. This strategic goal calls for TTB to improve the detection and enforcement of diversion and other tax evasion in the cross-border trade of alcohol and tobacco products by leveraging interagency and other data sources to enhance and further integrate analytics tools into the Bureau's enforcement planning and processes.

Performance Discussion by Strategic Objective

Improve Data Driven Decision Making

Given the amount of import-related data that has recently become available through the International Trade Data System (ITDS) – and the near-term revenue risk posed by the import-related provisions of the recent tax reform legislation – TTB focused its data-driven enforcement efforts in FY 2018 on imported alcohol and tobacco products. In FY 2018, TTB made progress in mining this data and enhancing its analytics tools to detect illicit activity, such as importers operating without a TTB permit and importers misclassifying or underreporting entries of alcohol and tobacco products to CBP to evade excise taxes. However, TTB's ability to make greater progress this year was limited due to competing priorities related to tax reform implementation. In the year ahead, TTB will review its methodology and baseline data to establish two new indicators – the *Percent of Revenue Cases Initiated through Analytics* and the *Success Rate of Closed Revenue Cases Initiated through Analytics* – that will offer new insights to support enhanced enforcement planning in future years.

In FY 2019, TTB will continue its initiative to improve import business processes and enforcement using ITDS data, with a focus on using this data in conjunction with CBP's Commercial Targeting and Analysis Center (CTAC) to detect and address the misclassification of imports to evade taxes. CTAC is an interagency center that provides access to a wide range of data sources about imports and exports, including real-time data on the cross-border trade of TTB-regulated products. In the year ahead, TTB also plans to ensure continued coordination with CBP, including the exchange and use of the data needed by both agencies to ensure that domestic and foreign producers are not improperly paying reduced tax rates or receiving credits on quantities exceeding those allowed by law.

Increase Data Quality & Analytical Capacity

TTB must have access to timely and accurate data to execute its plans to employ risk-based analytics to effectively direct its enforcement resources. In FY 2018, TTB planned to make progress on initiatives to improve the use of export-related information currently reported to TTB and, over the longer term, to update TTB's export reporting requirements to improve the Bureau's ability to detect diversion. Export information is currently reported to TTB in two ways – through a paper form for each removal for export or a monthly summary spreadsheet that may be allowed under a TTB-approved variance – neither of which results in information that is readily available for use in analytic tools. However, this year, TTB had to significantly curtail these efforts due to competing priorities related to tax reform implementation.

Further, with set aside funding directed toward increasing trade practice enforcement, and the resulting shift of experienced TTB investigators to support this Congressional priority, TTB had limited resources available to dedicate to strategic initiatives to improve enforcement in these areas. Going forward, TTB will continue to evaluate how current or new data sources could be used to address the critical risks associated with imported and exported alcohol and tobacco products, particularly in light of the new tax reform provisions. TTB also intends to continue its efforts to make better use of the export-related information currently reported to TTB by converting it into a standardized, electronic format, as well as continue to work toward longer-term changes to its reporting requirements to support reconciliation of TTB data with other data sources to verify that products are actually exported.

Enhance Risk Based Enforcement

Addressing the revenue risk from the import and export trade requires TTB to increase interagency partnerships to maximize TTB's enforcement presence. In FY 2018, TTB coordinated with CBP support implementation of the import-related provisions of the tax reform legislation, which included assessing the impact of these provisions on existing regulatory requirements and coordinating across field enforcement divisions to identify the related risk areas, understand data and information sharing needs, and identify opportunities for joint enforcement efforts in FY 2019.

In the year ahead, TTB will continue to improve cooperation and information sharing with CBP, as well as other law enforcement partners, to effectively combat revenue risks under the new law. In the case of controlled groups containing both domestic and foreign producers, TTB and CBP are identifying information sharing and enforcement protocols to ensure that the entire controlled group does not exceed the quantity limitations for taking a reduced rate or tax credit under the new law. TTB will also continue to leverage interagency partnerships, such as CTAC, to improve the number and effectiveness of its analytics-driven cases, using data to signal the potential evasion of excise taxes and flag shipments for additional inspection by CBP at the ports.

Reduce Illicit Trade

TTB criminal enforcement efforts to date have uncovered various and widespread schemes to evade federal excise taxes involving imported and exported alcohol and tobacco products. Some tax evasion schemes involve diversion of non-tax-paid product marked or otherwise intended for export back into domestic commerce to evade federal excise taxes. Imports also present a revenue risk because importers may misclassify or underreport products upon entry into the U.S. to evade alcohol and tobacco excise taxes. Import risk increased under TCJA due to the availability of reduced effective tax rates for imports.

TTB's criminal cases reflect the unique risks posed by the cross-border trade in these products, and the Bureau's successful case resolution rate continues to demonstrate the quality and magnitude of these cases. The Bureau monitors its effective case selection and management through its indicator of *Percentage of Criminal Cases Resolved with Successful Outcomes*, which tracks TTB's completed cases that result in a conviction, plea, seizure or forfeiture, or restitution. In FY 2018, TTB successfully resolved 21 of 24 criminal cases, or 88 percent, including several related to tobacco products intended for export. The two most significant criminal cases closed this year involved the evasion of more than $20 million in federal and state excise taxes through the diversion of export-only cigarettes. In all, TTB recovered nearly $30 million in restitution, forfeitures, and seizures through its civil and criminal actions on these cases.

Going forward, TTB intends to continue to deploy its National Response Teams to address high-risk activity identified through analytics and intelligence. An effective investigative technique, National Response Teams employ a team-based approach to TTB cases, leveraging the skill sets across TTB's enforcement functions. This approach allows TTB to effectively plan and execute major investigations, which are often nation-wide in scope and typically involve multiple locations. TTB measures Its capacity to use this enforcement approach through its measure of the *Number of National Response Team Investigations*. In FY 2018, TTB initiated eight National Response Team investigations, including several related to high-risk activity at tobacco export warehouses.

Both the number and type of National Response Team investigations shifted in FY 2018 to in response to shifting enforcement priorities and resource constraints. Given the complexity and scale of trade practice investigations, TTB employed this effective enforcement technique to initiate several major trade practice investigations this year. With continued emphasis on trade practice enforcement, and within current resources, TTB will need to continue to balance its enforcement priorities in FY 2019 to maintain its enforcement presence across TTB's key risk areas.

Goal 4: Key Success Indicators

Measure /Indicator	Strategic Objective Alignment	FY 2014 Actual	FY 2015 Actual	FY 2016 Actual	FY 2017 Actual	FY 2018		FY 2019 Target	Results vs Target
						Actual	Target		
Number of National Response Team Investigations	SO 12	9	10	10	12	**8**	N/A	N/A	N/A
Percent of Criminal Cases Resolved with Successful Outcomes	SO 4	BASE	85%	72%	87%	**88%**	N/A	N/A	N/A
Percent of Revenue Cases Initiated through Analytics	SO 12					**BASE**	N/A	N/A	N/A
Success Rate of Closed Revenue Cases Initiated through Analytics	SO 12					**BASE**	N/A	N/A	N/A

Key: BASE - Baseline

Goal 5: Training Revitalization

Effective and efficient administration of the Bureau's revenue collection and public protection missions requires that TTB create the conditions necessary for programs to reach and sustain excellence. TTB established a management-oriented goal that underpins success in the other four strategic goals. TTB's strategic goal to revitalize its training and development program supports its ability to accomplish its other four strategic goals with its broad aim to prepare the TTB workforce to meet mission challenges through continuously assessing individual and organizational training needs and effectively addressing critical skill gaps. In Part III of this report, the resources dedicated to this goal are pro-rated to the Collect the Revenue and Protect the Public major programs.

Performance Discussion by Strategic Objective

Enhance Professional Expertise

TTB intends to continue its proactive approach to addressing the mission risk created by the potential 2022 retirement wave by strategically employee a variety of human capital policies and programs, with specific emphasis on enhancing the technical knowledge and leadership skills of its workforce. In FY 2018, TTB continued its efforts to align workforce training and development needs with the strategic direction of the Bureau, taking into account the areas that employees have identified as most in need of improvement in recent years through the annual Employee Viewpoint Survey (EVS).

TTB measures the *Positive Response Rate on Training Items in the Federal Employee Viewpoint Survey* to monitor its performance in the areas targeted for improvement under its training revitalization goal. The FY 2018 EVS results indicate a significant improvement in the positive response rate on these training-related questions, with the combined score increasing from 70 percent in FY 2017 to 77 percent in FY 2018. Since 2014, the positive response rates have increased between 10 – 15 percent across the three survey items included in the performance calculation: 1) I am given a real opportunity to improve my skills in my organization; 2) My training needs are assessed; and 3) Satisfaction with the training received for present job.

Year-to-year, TTB demonstrated the most significant positive trends in satisfaction with the training received for an employee's present job, which increased 9 percent since 2017, as well as whether an employee's training needs were adequately assessed, which increased 7 percent over the same period. In support of the strategic goal, TTB divisions have prioritized technical job skills training, with TTB expecting to realize additional benefit in the quality, timeliness, and consistency of its regulatory and tax work as employees increase their expertise.

Improvements in this area have also been driven by implementation of several initiatives to ensure that employees' training needs are fully and timely assessed and addressed. TTB developed and tested new procedures for conducting an annual Bureau-wide training needs assessment, which will be used in FY 2019 to develop and publish an annual TTB training plan. The new process will ensure that priority training needs are fulfilled and provide employees with the opportunity to leverage training opportunities available across the Bureau and Department.

In FY 2018, TTB also continued efforts to improve its use of individual development plans (IDPs) to promote continuous and achieve employee career goals. TTB held several employee and supervisor webinars in FY 2018, providing guidance and resources to support meaningful and ongoing discussions about critical skills and development opportunities. In the year ahead, based on the anticipated features of the new Integrated Talent Management System that is being rolled out across Treasury bureaus, TTB will seek to increase its capability to develop effective IDPs aligned to critical job elements and to mine the data from the plans to support its annual training needs assessment.

TTB also made significant progress this year on its initiative to develop career ladder assessments, creating processes and tools for a new career ladder matrix that defines clear standards, specific skills, and optional developmental or training assignments to support an employee in advancing within their job series. In FY 2019, TTB will pilot the new process within its auditor job series, with plans to make incremental progress across TTB positions over the next several years.

Finally, to develop its next generation of leaders, TTB implemented enhancements to its Emerging Leaders Program. This leadership development initiative offers three unique certificate programs for non-supervisors, first-level supervisors, and second-level managers at TTB. The three-year program supports TTB's workforce planning strategies and prepares participants for leadership by developing the competencies critical for higher levels of responsibility. In FY 2018, based on participant feedback, TTB expanded the program to include an experiential learning opportunity in the form of a collaborative, cross-organizational "capstone" project requirement to put classroom skills into effect and broaden the exposure of program participants to other areas of the Bureau's operations.

Improve Employee Engagement

Employee engagement and satisfaction are equally critical to a productive workforce. Each year, the Office of Personnel Management administers the EVS to measure the satisfaction of the federal workforce. Based on this survey data, the Partnership for Public Service determines rankings for federal agencies. TTB uses these results to develop an annual Employee Engagement Action Plan to target areas for improvement, with these efforts resulting in a positive performance trend in recent years. Even as government-wide performance has remained relatively flat, TTB has successfully improved its workforce satisfaction over the past five years, reaching its highest positive response rate of 89 percent in FY 2018, based on initial results. For FY 2017, TTB ranked 4th out of 339 sub-component agencies in the Best Places to Work in Federal Government; FY 2018 rankings are pending release.

TTB's Employee Engagement Action Plan for FY 2018 focused on improving training and internal communications, the two areas with the greatest opportunity for improvement across TTB divisions. Specifically, TTB continued its priority initiatives to revitalize its training programs and, in addition to the above, made significant progress this year in improving the experience of new hires through the implementation of a new onboarding program. Further, in the area of communications, TTB made substantial progress in its initiative to improve the tools and techniques used to publish and promote training opportunities, launching an online resource to capture and share information on TTB training offerings. Moving forward, TTB will consider next steps in the development of an online course catalog of training materials in specialized program areas.

Even with the progress achieved in FY 2018, TTB intends to remain focused on training and strategic workforce management in FY 2018 to maintain its status as an employer of choice in the federal government. To encourage continuous development, TTB will improve its promotion of training opportunities, expanding its communication strategies to ensure that the workforce is aware of the new online resource for the TTB training plan. Other anticipated areas of focus based on FY 2018 EVS results include reducing hiring times to ensure timely onboarding of authorized hires, which will help manage and balance workloads. In addition to reviewing its internal policies, TTB will provide targeted training to support TTB hiring managers in timely completing the vacancy announcements and conducting effective interviews.

Goal 5: Key Success Indicators

Measure /Indicator	Strategic Objective Alignment	FY 2014 Actual	FY 2015 Actual	FY 2016 Actual	FY 2017 Actual	FY 2018		FY 2019 Target	Results vs Target
						Actual	Target		
Best Places to Work Engagement Index Score[a]	SO 14	74	80	82	85	**89**	N/A	N/A	N/A
Positive Response Rate on Training Items in Federal Employee Viewpoint Survey	SO 13	64	68	71	70	**77**	85	85	Unmet

a. 2018 result is estimated based on initial FEVS results; final results are available at www.bestplacestowork.org.

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PART III
FINANCIAL RESULTS, POSITION, CONDITION, AND AUDITORS' REPORTS

3.1 MESSAGE FROM THE CHIEF FINANCIAL OFFICER

As a steward of public resources, and the third largest tax collection agency in the federal government, TTB is committed to strong internal controls and sound management practices to ensure the collection and verification of approximately $20 billion in annual excise tax collections from the alcohol, tobacco, firearms, and ammunition industries.

In FY 2018, for the ninth consecutive year, TTB obtained an unmodified (clean) audit opinion on its financial statements from an independent Certified Public Accounting firm, demonstrating our dedication to financial reporting excellence. This audit provides reasonable assurance that TTB's financial statements are free from material misstatement and prepared in accordance with generally accepted accounting principles.

TTB has continued to implement improvements across the organization by relying on its Balanced Scorecard strategic management framework. To develop the updated strategic plan for FY 2018-2022, TTB leveraged Enterprise Risk Management principles to perform a Bureau-wide risk assessment that synthesized various factors, both internal and external, to inform the selection of strategic priorities and goals. Based on these new strategic goals, TTB refreshed its Balanced Scorecard to monitor and drive performance improvements.

Under our new strategic plan, TTB has continued to emphasize data-driven decision making to fulfill our diverse mission of market protection and revenue collection. Previously, TTB faced constraints based on siloed data and limited system integration, which hindered the pace of analytics efforts. This year, the Bureau focused on managing data as an asset, including through consolidating data in a new analytics environment and standing up a strong data governance program. With this approach, TTB will enhance the accuracy, reliability, and speed of TTB reporting, improving the Bureau's ability to evaluate program performance and supporting informed decisions to improve program outcomes.

Further, we recognize that accomplishing our goals requires that we prepare our workforce to meet current and future mission challenges. With more than half of the TTB workforce eligible to retire in the next five years, and guided by employee feedback from the federal Employees Viewpoint Survey, TTB has made the revitalization of its training and development programs a strategic priority to meet both individual and organizational needs. While TTB is proud of its EVS scores, which rank us in the top 1% of Best Places to Work in the Federal Government, TTB plans to place greater emphasis on workforce training, including leadership development, to prepare for future retirements and ensure strong succession planning.

In facing the challenges ahead, we remain steadfast in our commitment to fostering a collaborative workplace where we set goals, maintain transparency around program risks and results, regularly review our progress, and implement course corrections as needed to meet our performance objectives.

Cheri D. Mitchell
Assistant Administrator, Management/CFO

3.2 AUDITORS' REPORT, FINANCIAL STATEMENTS, AND ACCOMPANYING NOTES

KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

Independent Auditors' Report

Inspector General
Department of the Treasury

Administrator
Alcohol and Tobacco Tax and Trade Bureau:

Report on the Financial Statements

We have audited the accompanying financial statements of the Alcohol and Tobacco Tax and Trade Bureau, which comprise the balance sheets as of September 30, 2018 and 2017, and the related statements of net cost, changes in net position, and custodial activity, and statements of budgetary resources for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with Office of Management and Budget (OMB) Bulletin No. 19-01, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 19-01 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Alcohol and Tobacco Tax and Trade Bureau as of September 30, 2018 and 2017, and its net costs, changes in net position, budgetary resources, and custodial activity for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Interactive Data

Management has elected to reference to information on websites or other forms of interactive data outside the *FY 2018 Annual Report* to provide additional information for the users of its financial statements. Such information is not a required part of the basic financial statements or supplementary information required by the Federal Accounting Standards Advisory Board. The information on these websites or the other interactive data has not been subjected to any of our auditing procedures, and accordingly we do not express an opinion or provide any assurance on it.

Required Supplementary Information

U.S. generally accepted accounting principles require that the information in the Management's Discussion and Analysis, and Required Supplementary Information sections be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Federal Accounting Standards Advisory Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The Other Accompanying Information included in (1) *Table of Contents*, (2) *Introduction*, (3) *Message from the Administrator*, (4) *Mission, Vision, and Values*, (5) *TTB Organization*, (6) *TTB Office Locations*, (7) *Part II: Annual Performance Results,* (8) *Message from the Chief Financial Officer (9) Other Accompanying Information,* and (10) *Part IV: Appendices* is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements as of and for the year ended September 30, 2018, we considered the Alcohol and Tobacco Tax and Trade Bureau's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Alcohol and Tobacco Tax and Trade Bureau's internal control. Accordingly, we do not express an opinion on the effectiveness of the Alcohol and Tobacco Tax and Trade Bureau's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Alcohol and Tobacco Tax and Trade Bureau's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 19-01.

Purpose of the Other Reporting Required by Government Auditing Standards

The purpose of the communication described in the Other Reporting Required by *Government Auditing Standards* section is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Alcohol and Tobacco Tax and Trade Bureau's internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, DC
December 18, 2018

ALCOHOL AND TOBACCO TAX AND TRADE BUREAU
BALANCE SHEETS
As of September 30, 2018 and 2017
(In Thousands)

	2018	2017
ASSETS		
Intragovernmental Assets:		
Fund Balance with Treasury (Note 2)	$ 40,535	$ 43,020
Accounts Receivable (Note 3)	1,345	456
Due from the General Fund (Notes 5 and 8)	19,428	12,384
Total Intragovernmental Assets	61,308	55,860
Accounts Receivable (Note 3)	512	515
Tax and Trade Receivables, Net (Notes 4 and 8)	23,305	23,959
Property, Plant and Equipment, Net (Note 6)	9,422	9,639
Advances (Note 7)	180	182
TOTAL ASSETS (Note 8)	$ 94,727	$ 90,155
LIABILITIES		
Intragovernmental Liabilities:		
Accounts Payable	$ 1,504	$ 992
Payroll Benefits	566	550
FECA Liabilities	8	5
Due to the General Fund (Notes 4 and 5)	17,366	15,854
Due to the Wildlife Restoration Fund (Note 5)	5,939	8,105
Total Intragovernmental Liabilities	25,383	25,506
Accounts Payable	3,425	3,894
Payroll Benefits	2,069	2,020
FECA Actuarial Liability	78	92
Refunds Payable	19,428	12,384
Unfunded Leave	4,821	4,747
Cash Bond Liabilities	13,809	14,384
Other Liabilities (Note 9)	1,251	1,758
TOTAL LIABILITIES	$ 70,264	$ 64,785
Commitments and Contingencies (Note 19)		
NET POSITION		
Unexpended Appropriations - Other Funds	$ 18,946	$ 20,374
Cumulative Results of Operations - Other Funds	5,517	4,996
TOTAL NET POSITION - OTHER FUNDS	$ 24,463	$ 25,370
TOTAL LIABILITIES AND NET POSITION	$ 94,727	$ 90,155

The accompanying notes are an integral part of these statements.

ALCOHOL AND TOBACCO TAX AND TRADE BUREAU

STATEMENTS OF NET COST

For the Years Ended September 30, 2018 and 2017

(In Thousands)

	2018	2017
COLLECT THE REVENUE		
Program Costs		
Intragovernmental Gross Costs	$ 14,728	$ 14,347
Less: Intragovernmental Earned Revenue	(2,180)	(1,893)
Intragovernmental Net Costs	12,548	12,454
Gross Costs with the Public	41,653	41,368
Less: Earned Revenues from the Public	(2,678)	(2,595)
Net Costs with the Public	38,975	38,773
Total Net Program Cost	$ 51,523	$ 51,227
PROTECT THE PUBLIC		
Program Costs		
Intragovernmental Gross Costs	$ 17,416	$ 15,983
Less: Intragovernmental Earned Revenue	(528)	(437)
Intragovernmental Net Costs	16,888	15,546
Gross Costs with the Public	49,254	46,085
Less: Earned Revenues from the Public	(649)	(599)
Net Costs with the Public	48,605	45,486
Total Net Program Cost	$ 65,493	$ 61,032
NET COST OF OPERATIONS (Note 13)	$ 117,016	$ 112,259

The accompanying notes are an integral part of these statements.

ALCOHOL AND TOBACCO TAX AND TRADE BUREAU
STATEMENTS OF CHANGES IN NET POSITIONS

For the Years Ended September 30, 2018 and 2017
(In Thousands)

	2018	2017
Cumulative Results of Operations		
Beginning Balances	$ 4,996	$ 6,049
Budgetary Financing Sources		
Appropriations Used	112,217	108,061
Transfers-in without reimbursement	982	200
Other Financing Sources (Non-exchange)		
Imputed Financing from Costs Absorbed by Others (Note 12)	4,340	2,946
Transfers of the General Fund and Other	(2)	(1)
Total Financing Sources	117,537	111,206
Net Cost of Operations (Note 13)	(117,016)	(112,259)
Net Change	521	(1,053)
Cumulative Results of Operations	$ 5,517	$ 4,996
UNEXPENDED APPROPRIATIONS		
Beginning Balances	$ 20,374	$ 18,150
Budgetary Financing Sources		
Appropriations Received	111,439	111,439
Other Adjustments	(650)	(1,154)
Appropriations Used	(112,217)	(108,061)
Total Budgetary Financing Sources	(1,428)	2,224
Total Unexpended Appropriations	$ 18,946	$ 20,374
TOTAL NET POSITION	$ 24,463	$ 25,370

The accompanying notes are an integral part of these statements.

ALCOHOL AND TOBACCO TAX AND TRADE BUREAU
STATEMENTS OF BUDGETARY RESOURCES
For the Years Ended September 30, 2018 and 2017
(In Thousands)

	2018	2017
BUDGETARY RESOURCES (Note 14)		
Unobligated Balance Brought Forward, Oct 1	$ 6,117	$ 2,716
Recoveries of Prior Year Unpaid Obligations	1,595	1,208
Other Changes in Unobligated Balance	(600)	(1,077)
Unobligated Balance from Prior Year Budget		
Authority, Net	7,112	2,847
Appropriations (discretionary and mandatory)	111,439	111,439
Spending Authority from Offsetting Collections		
(discretionary and mandatory)	7,241	6,015
TOTAL BUDGETARY RESOURCES	$ 125,792	$ 120,301
STATUS OF BUDGETARY RESOURCES		
New Obligations and Upward Adjustments (Note 15)	$ 118,722	$ 114,184
Unobligated Balance, End of Year:		
Apportioned, Unexpired Accounts	5,430	4,540
Unapportioned, Unexpired Accounts	4	-
Unexpired Unobligated Balance, End of Year	5,434	4,540
Expired Unobligated Balance, End of Year	1,636	1,577
Unobligated Balance, End of Year	7,070	6,117
TOTAL STATUS OF BUDGETARY RESOURCES	$ 125,792	$ 120,301
OUTLAYS NET		
Outlays, Gross (discretionary and mandatory)	118,333	113,691
Actual Offsetting Collections (discretionary and mandatory)	(6,166)	(5,616)
Outlays, Net (discretionary and mandatory)	112,167	108,075
Distributed Offsetting Receipts	(9)	(2)
AGENCY OUTLAYS, NET (discretionary and mandatory)	$ 112,158	$ 108,073

The accompanying notes are an integral part of these statements.

ALCOHOL AND TOBACCO TAX AND TRADE BUREAU
STATEMENTS OF CUSTODIAL ACTIVITY
For the Years Ended September 30, 2018 and 2017
(In Thousands)

		2018		2017
SOURCES OF CUSTODIAL REVENUE				
Revenue Received				
Excise Taxes (Note 16)	$	20,548,478	$	21,829,658
Interest, Fines and Penalties		5,099		2,819
Other Custodial Revenue		8		1
Total Revenue Received (Note 17)		20,553,585		21,832,478
Less Refunds and Drawbacks (Note 16)		(319,410)		(406,030)
Net Revenue Received		20,234,175		21,426,448
Accrual Adjustment		(7,698)		5,493
Total Sources of Custodial Revenue	$	20,226,477	$	21,431,941
DISPOSITION OF CUSTODIAL REVENUE				
Amounts Provided to:				
General Fund	$	19,154,672	$	20,296,332
Wildlife Restoration Fund		624,769		760,190
Amounts Provided to Fund the Federal Government (Note 17)		19,779,441		21,056,522
Amounts Provided to Non-Federal Entities (Note 16)		454,734		369,926
Increases/(Decreases) in Amounts Yet to be Provided:				
General Fund		1,512		(2,686)
Wildlife Restoration Fund		(2,166)		1,354
(Increase)/Decrease in Accrued Refunds		(7,044)		6,825
Total Disposition of Custodial Revenue	$	20,226,477	$	21,431,941
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 or Bureau) 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. The history of TTB's regulatory responsibility dates back to the creation of the Department of the Treasury and the first Federal taxes levied on distilled spirits in 1791. TTB has two primary programs: Collect the Revenue and Protect the Public. Under the Collect the Revenue program, TTB collects alcohol, tobacco, firearms, and ammunition excise taxes, and under its Protect the Public program, TTB 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 assets, liabilities, and net cost of operations, changes in net position, budgetary resources, and custodial activities of TTB. The financial statements have been prepared from the books and records of TTB in conformity with generally accepted accounting principles (GAAP) in the United States, and form and content guidance for entity financial statements issued by the Office of Management and Budget (OMB) in OMB Circular A-136. TTB's accounting policies are summarized in this note. GAAP for Federal entities is 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.

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.

The Statement of Custodial Activity is presented on the modified cash basis. The related activity is detailed in Note 1.E.

D. Revenue and 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. The majority of the Exchange Revenues earned by the Bureau result from providing services to the Government of Puerto Rico, as well as other federal entities.

(2) 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.

(3) Imputed Financing Sources

Imputed Financing Sources are the result of Federal entities financing costs on behalf of TTB. Those entities pay future benefits for health insurance, life insurance, and pension benefits for TTB employees.

E. Custodial Revenue

For TTB, most Custodial Revenues result from collecting taxes on alcohol and tobacco products, which are transferred to the General Fund, and recognized as a nonexchange revenue on the Federal government's consolidated financial statements. The excise taxes collected by TTB come from businesses, and the taxes are imposed and collected at the producer and importer levels of operations. Members of the regulated industries paying excise taxes are distilleries, breweries, bonded wineries, bonded wine cellars, manufacturers of cigarette tubes, manufacturers of tobacco products, and manufacturers and importers of firearms and ammunition. These taxes are recorded in the records on a modified cash basis of accounting. The Statement of Custodial Activity is also presented on a modified cash basis.

F. 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 custodial activities related to collecting escrow payments designed to finance Offers-in-Compromise and cash bonds held in lieu of corporate surety bonds guaranteeing payment of taxes.

G. 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 primarily based on specific identification.

H. Property, Plant, and Equipment

Property, Plant, and Equipment purchased with a cost greater than or equal to $25,000 per unit and a useful life of two years or more, is capitalized and depreciated. Normal repairs and maintenance are charged to expense as incurred.

TTB also capitalizes internal use of software when the unit cost or development costs are greater than or equal to $25,000. The same threshold also applies to enhancements that add significant functionality to the software. TTB will amortize this software based on its classification. The classifications are as follows: 1) Enterprise and other business software (five years), and 2) Personal productivity and desktop operating software (three years).

Additionally, TTB also capitalizes like assets purchased in bulk when the unit price is greater than or equal to $5,000 and less than $25,000, 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.

I. Advances

Advances are payments made to cover certain periodic expenses before those expenses are incurred. Advances generally consist of prepaid services agreements for support or maintenance.

J. Non-entity Assets

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

K. Liabilities

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

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

L. Litigation Contingencies and Settlements

Probable and estimable litigation and claims against TTB are recognized as a liability and expense for the full amount of the expected 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 Bivens-type tort claims. Settlements paid from the Judgment Fund for TTB are recognized as an expense and imputed financing source.

M. Annual, Sick, and Other Leave

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

N. 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.

O. Retirement Plans

Most employees hired prior to January 1, 1984 participate in the Civil Service Retirement System (CSRS), and employees hired between January 1, 1984 and December 31, 1986 are covered under the CSRS Offset system, to which TTB contributes 7.0 percent of pay for employees covered by both. On January 1, 1987, the Federal Employees' Retirement System (FERS) went into effect. FERS is a three-tiered retirement system consisting of a Basic Benefit Plan, Thrift Savings Plan (TSP), and Social Security Benefits. For the FERS Basic Benefit Plan, TTB contributes between 11.9 to 13.7 percent of pay for regular employees. The Bureau has not employed any law enforcement employees. As such, the contribution rates associated with those types of employees are not applicable to TTB.

All employees are eligible to contribute to TSP, a 401(k)-type saving plan. For those employees participating in 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 of base pay, for FERS-eligible employees who contribute to their TSP accounts. Matching contributions are not made to the TSP accounts established by CSRS employees. For most employees hired after December 31, 1983, the Bureau also contributes the employer's matching share for Social Security.

TTB recognized the full cost of providing future pension and other retirement benefits (ORB) for current employees as required. Full cost includes pension and ORB contributions paid out of Bureau appropriations and costs financed by OPM. Costs financed by OPM are reported in the accompanying financial statements as imputed costs, which are offset by imputed financing revenue sources. Reporting amounts such as plan assets, accumulated plan benefits, or unfunded liabilities, if any, is the responsibility of OPM.

P. Federal Employees' Compensation Act

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to covered Federal civilian employees injured on the job and employees who have incurred a work-related injury or occupational disease. The future workers' compensation estimates were generated from an application of actuarial procedures developed to estimate the liability for FECA benefits. The actuarial liability estimates for FECA benefits include the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. The liability is determined using the paid losses development method, which utilizes historical benefit patterns related to a specific incurred period to predict ultimate payments related to that period. The Department of Labor calculates Treasury's FECA actuarial liability. Treasury then allocates shares of the liability to its component organizations, including TTB.

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

Q. Use of Estimates

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

R. Tax Exempt Status

As an agency of the Federal Government, TTB is exempt from all income taxes imposed by any governing body, whether it is a Federal, state, commonwealth, local, or foreign government.

S. Changes in Presentation

In fiscal 2018, changes to the presentation of the Statements of Budgetary Resources were made, in accordance with guidance provided in OMB Circular A-136. As such, the fiscal 2017 Statement of Budgetary Resources has been changed to conform to the current year presentation.

T. Subsequent Events

Subsequent events and transaction occurring after September 30, 2018 through the date of the auditors' opinion have been evaluated for potential recognition or disclosure in the financial statements.

Note 2. Fund Balance with Treasury

Fund Balance with Treasury as of September 30, 2018 and 2017 consisted of the following (in thousands):

	2018	2017
Fund Balances:		
General Funds	$ 25,474	$ 26,852
Other Funds	15,061	16,168
Total	$ 40,535	$ 43,020
Status of Fund Balances:		
Unobligated Balance - Available	$ 5,430	$ 4,540
Unobligated Balance - Unavailable	1,640	1,577
Obligated Balance Not Yet Disbursed	18,404	20,735
Subtotal	25,474	26,852
Adjustment for Non-Budgetary Funds	15,061	16,168
Total Status of Fund Balances	$ 40,535	$ 43,020

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

The unobligated balance that is unavailable is the balance of prior years' expired appropriations.

Note 3. Accounts Receivable

Accounts Receivable as of September 30, 2018 and 2017 consisted of the following (in thousands):

	2018	2017
Intragovernmental Accounts Receivable:		
Due from Community Financial Development Institutions Fund	$ 266	$ 107
Due from Treasury Executive Office of Asset Forfeiture	1,076	347
Due from Financial Crimes Enforcement Network	3	-
Due from Department of Health and Human Services	-	2
Total Intragovernmental Accounts Receivable	$ 1,345	$ 456
Due from the Government of Puerto Rico	$ 507	$ 498
Due from Employees	5	17
Total Accounts Receivable Due from the Public	$ 512	$ 515

No allowance for doubtful accounts has been recognized, nor have any accounts been written off in either FY2018 or FY2017. All intragovernmental accounts receivable are considered fully collectible. Additionally, other non-Federal receivables consist of a receivable from the government of Puerto Rico, which is collected via an offset to 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, 2018 and 2017 consisted of the following (in thousands):

	2018	2017
Tax and Trade Receivables	$ 205,158	$ 188,339
Interest Receivable	30,966	28,767
Penalties, Fines and Administrative Fees Receivable	79,392	81,630
Total Tax and Trade Receivables	315,516	298,736
Allowance for Doubtful Accounts	(292,211)	(274,777)
Total Tax and Trade Receivables, Net	$ 23,305	$ 23,959

All tax and trade receivables are non-entity assets. An allowance for uncollectible amounts has been established based on: 1) an analysis of individual receivable balances and 2) the application of historical non-collection rates for similar types of receivables. Because current laws governing the collection period for these tax assessments, 26 U.S.C. 6502, stipulate taxes are collectible for 10 years from the date the taxes were assessed, a large amount of aged receivables that are not likely to be collected have been offset with an allowance, but not written off. Net Tax and Trade Receivables have offsetting liabilities reported as Due to the General Fund and Due to the Wildlife Restoration Fund.

Tax and Trade Receivables also includes amounts related to criminal restitution owed to the U.S. government. As of September 30, 2018 and 2017, gross receivables related to criminal restitution orders we monitored were $51.7 million and $44.4 million, respectively, of which we determined $1.1 million and $0.9 million were collectible.

Note 5. Due from the General Fund and Due to the General Fund

Due from the General Fund and Due to the General Fund as of September 30, 2018 and 2017 consisted of the following (in thousands):

	2018	2017
Due from the General Fund	$ 19,428	$ 12,384

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

	2018	2017
Due to the General Fund	$ 17,366	$ 15,854
Due to the Wildlife Restoration Fund	5,939	8,105
Total Custodial Liabilities	$ 23,305	$ 23,959

Amounts due to the General Fund primarily represent the balance of receivables related to Alcohol and Tobacco excise taxes. Similarly, receivables related to Firearms and Ammunition excise taxes equate to custodial liabilities payable to the Department of Interior's Wildlife Restoration Fund, as opposed to the General Fund.

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

Property, Plant and Equipment as of September 30, 2018 and 2017 consisted of the following (in thousands):

2018	Estimated Useful Life (Years)	Acquisition Value	Accumulated Depreciation	Net Book Value
Internal Use Software	3 - 5	$ 13,644	$ 13,644	$ -
Equipment	4 - 6	12,632	10,434	2,198
Leasehold Improvements	2 - 5	2,263	1,983	280
Building	40	9,772	3,623	6,149
Construction in Process		795	-	795
Total PP&E		$ 39,106	$ 29,684	$ 9,422

2017	Estimated Useful Life (Years)	Acquisition Value	Accumulated Depreciation	Net Book Value
Internal Use Software	3 - 5	$ 13,644	$ 13,644	$ -
Equipment	4 - 6	13,763	11,100	2,663
Leasehold Improvements	2 - 5	2,263	1,689	574
Building	40	9,772	3,370	6,402
Construction in Process		-	-	-
Total PP&E		$ 39,442	$ 29,803	$ 9,639

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

The balance in the buildings account represents TTB's 13.2 percent equity interest in the National Laboratory Center facility in Beltsville, Maryland, which TTB co-owns with the Bureau of Alcohol, Tobacco, Firearms and Explosives (ATF).

Note 7. Advances

Advances as of September 30, 2018 and 2017 consisted of the following (in thousands):

	2018	2017
Beginning Balance	$ 182	$ 35
Prepayments	54	188
Liquidations	(56)	(41)
Ending Balance	$ 180	$ 182

Advances with the public generally consist of prepaid services agreements for support or maintenance.

Note 8. Non-entity Assets

Non-entity Assets as of September 30, 2018 and 2017 consisted of the following (in thousands):

	2018	2017
Intragovernmental Non-entity Assets:		
Fund Balance with Treasury	$ 15,061	$ 16,168
Due from the General Fund	19,428	12,384
Total Intragovernmental Non-entity Assets	34,489	28,552
Tax and Trade Receivables, Net	23,305	23,959
Total Non-Entity Assets	57,794	52,511
Total Entity Assets	36,933	37,644
Total Assets	$ 94,727	$ 90,155

Note 9. Other Liabilities

Other Liabilities as of September 30, 2018 and 2017 consisted of the following (in thousands):

	2018	2017
Offers-in-Compromise not yet Accepted	$ 1,251	$ 1,758
Total Other Liabilities with the Public	$ 1,251	$ 1,758

All Other Liabilities are considered current liabilities.

Note 10. Liabilities Not Covered by Budgetary Resources

Liabilities not Covered by Budgetary Resources as of September 30, 2018 and 2017 consisted of the following (in thousands):

	2018	2017
Accrued FECA Liability	$ 8	$ 5
Total Intragovernmental Liabilities not Covered by Budgetary Resources	8	5
FECA Actuarial Liability	78	92
Unfunded Leave	4,821	4,747
Total Liabilities with the Public not Covered by Budgetary Resources	4,899	4,839
Total Liabilities not Covered By Budgetary Resources	4,907	4,844
Total Liabilities Covered by Budgetary Resources	65,357	59,941
Total Liabilities	$ 70,264	$ 64,785

Note 11. Future Funding Requirements

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

Generally, liabilities not covered by budgetary resources require future funding and can be liquidated only with the enactment of future appropriations.

Note 12. Imputed Financing

Imputed Financing as of September 30, 2018 and 2017 consisted of the following (in thousands):

	2018	2017
Health Insurance	$ 2,913	$ 2,197
Life Insurance	10	10
Pension	1,417	739
Total Imputed Financing	$ 4,340	$ 2,946

Imputed financing recognizes actual cost of future benefits to be paid by other Federal entities. These benefits include Federal Employees Health and Benefits Program (FEHB), Federal Employees Group Life Insurance Program (FEGLI), and pensions. Imputed financing also recognizes costs paid by the Judgment Fund. The Fund was established and funded by Congress under 31 U.S.C. 1304 to pay in whole or in part court judgments and settlement agreements negotiated by Treasury on behalf of agencies, as well as certain types of administrative awards. The Judgment Fund did not pay out any awards on TTB's behalf during fiscal years 2018 or 2017.

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 and $739,000 for fiscal years 2018 and 2017 respectively. Similarly, OPM rather than TTB, reports liabilities for future payments to retired employees who participate in the FEHB and FEGLI programs. The FEHB cost factor applied to a weighted average number of employees enrolled in the FEHB program increased in FY 2018 to $7,151 from $5,412 in FY 2017, resulting in $2.9 million of imputed cost for employees' health benefits in FY2018 versus $2.2 million in FY 2017. The cost factor, as provided by OPM, for employees enrolled in the FEGLI program, remained unchanged from FY 2017 to FY 2018, at .02 percent of employees' basic pay. The FEGLI amounts totaling $10,000 for each of FY 2018 and FY 2017 are also included as an expense and imputed financing source in TTB financial statements.

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

Consolidated Gross Cost and Earned Revenue by Budget Function Classification as of September 30, 2018 and 2017 consisted of the following (in thousands):

Fiscal Year Ended September 30, 2018

Activity	Budget Function Classification (BFC)	BFC Code	Gross Costs	Earned Revenue	Net Costs
Intragovernmental	Central Fiscal Operations	803	$ 32,144	$ (2,708)	$ 29,436
With the Public	Central Fiscal Operations	803	90,907	(3,327)	87,580
Consolidated	Central Fiscal Operations	803	$ 123,051	$ (6,035)	$ 117,016

Fiscal Year Ended September 30, 2017

Activity	Budget Function Classification (BFC)	BFC Code	Gross Costs	Earned Revenue	Net Costs
Intragovernmental	Central Fiscal Operations	803	$ 30,330	$ (2,330)	$ 28,000
With the Public	Central Fiscal Operations	803	87,453	(3,194)	84,259
Consolidated	Central Fiscal Operations	803	$ 117,783	$ (5,524)	$ 112,259

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

The following chart displays balances from the FY 2017 Statement of Budgetary Resources and actual fiscal year balances included in the FY 2019 President's Budget. There were no differences related to the Salaries and Expense accounts. The FY 2020 budget, which would include FY 2018 actuals, had not been published at the time of this report.

Fiscal Year Ended September 30, 2017 (In Millions / Unaudited)	**Statement of Budgetary Resources**	**President's Budget**
Budgetary Resources:		
Appropriations	$ 111	$ 111
Spending Authority from Offsetting Collections	6	6
Budgetary Resources Available for Obligation	$ 117	$ 117
Outlays:		
Outlays, Gross	$ 114	$ 114
Actual Offsetting Collections	(6)	(6)
Outlays, Net	$ 108	$ 108

Additionally, for Special and Trust Fund Receipts, the FY 2019 President's Budget disclosed budget authority of $365 million for FY 2017, which funded cover-over payments to Puerto Rico. These amounts were not reported in the Statement of Budgetary Resources because 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.

Note 15. Apportionment Categories of New Obligations and Upward Adjustments

New Obligations and Upward Adjustments as of September 30, 2018 and 2017 consisted of the following (in thousands):

Fiscal Year	Apportionment Category	Direct Obligations	Reimbursable Obligations	Total New Obligations and Upward Adjs
2018	Category B	$ 112,338	$ 6,384	$ 118,722
2017	Category B	$ 108,276	$ 5,908	$ 114,184

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 apportionments by project. Based on how the Office of Management and Budget views TTB's operations in relation to projects, the Category B apportionments have essentially provided the Bureau full-year apportionments of its appropriations.

New Obligations and Upward Adjustments represents amounts that have been obligated or expended during each of the respective years. Whereas, Undelivered Orders represents the balance of obligations at the end of the respective years.

	2018	2017
Undelivered Orders, End of Year	$ 14,186	$ 15,528

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 2018 and FY 2017, TTB collected $20.6 billion and $21.8 billion respectively in taxes, interest, and other custodial 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 Wildlife Restoration Fund under provisions of the Pittman-Robertson Act of 1937.

REFUNDS AND OTHER PAYMENTS

During FY 2018 and FY 2017, TTB issued $774 million and $776 million in refunds, cover-over payments, and drawback payments in the respective years.

Tax Refunds

Tax Refunds result when taxpayers file returns for payments made for a given tax period and the result of the return is an overpayment.

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 custodial revenues and "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, Manufacturer of Nonbeverage Products (MNBP) claimants, and Specially Denatured Alcohol permit applicants. All costs associated with the functioning and supporting of the Puerto Rico office, $3.3 and $3.2 million in FY 2018 and FY 2017 respectively, are offset against the cover-over payments made by the United States to Puerto Rico.

Drawbacks

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

Refunds, Drawbacks and Cover-over Payments as of September 30, 2018 and 2017 consisted of the following (in thousands):

	2018	2017
Alcohol, Tobacco, and Firearms Excise Tax Refunds	$ 44,848	$ 55,839
Drawbacks on MNBP Claims	273,927	350,055
Interest and Other Payments	635	136
Refunds and Drawbacks	319,410	406,030
Cover-over Payments - Puerto Rico	446,026	364,804
Cover-over Payments - Virgin Islands	8,708	5,122
Amounts Provided to Non-federal Entities	454,734	369,926
Total Refunds, Drawbacks and Coverover Payments	$ 774,144	$ 775,956

Note 17. Custodial Revenue

Collection and Disposition of Custodial Revenue as of September 30, 2018 and 2017 consisted of the following (in thousands):

FY 2018 Collections and Refunds by Tax Year and Type

Revenue Type	2018	2017	2016	Pre-2016	FY 2018 Total
Excise Taxes	$ 15,099,095	$ 5,428,950	$ 3,324	$ 17,109	20,548,478
Fines, Penalties, Interest and Other	2,881	1,394	400	432	5,107
Total Revenue Received	15,101,976	5,430,344	3,724	17,541	20,553,585
Less: Amounts Collected for Non-federal Entities	(454,287)	(447)	-	-	(454,734)
Total	$ 14,647,689	$ 5,429,897	$ 3,724	$ 17,541	$ 20,098,851
Refund Type					
Excise Taxes	$ 96,850	$ 210,827	$ 5,553	$ 5,545	318,775
Fines, Penalties, Interest and Other	217	132	40	246	635
Total Refunds & Drawbacks	97,067	210,959	5,593	5,791	319,410
Amounts Provided to Fund the Federal Government	$ 14,550,622	$ 5,218,938	$ (1,869)	$ 11,750	$ 19,779,441

FY 2017 Collections and Refunds by Tax Year and Type

Revenue Type	2017	2016	2015	Pre-2015	FY 2017 Total
Excise Taxes	$ 15,877,971	$ 5,939,466	$ 4,818	$ 7,403	$ 21,829,658
Fines, Penalties, Interest and Other	1,003	720	79	1,018	2,820
Total Revenue Received	15,878,974	5,940,186	4,897	8,421	21,832,478
Less: Amounts Collected for Non-federal Entities	(339,813)	(30,113)	-	-	(369,926)
Total	$ 15,539,161	$ 5,910,073	$ 4,897	$ 8,421	$ 21,462,552
Refund Type					
Excise Taxes	$ 155,837	$ 240,611	$ 6,724	$ 2,722	$ 405,894
Fines, Penalties, Interest and Other	7	41	49	39	136
Total Refunds & Drawbacks	155,844	240,652	6,773	2,761	406,030
Amounts Provided to Fund the Federal Government	$ 15,383,317	$ 5,669,421	$ (1,876)	$ 5,660	$ 21,056,522

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, 2018 and 2017 consisted of the following (in thousands):

	2018	2017
Resources Used to Finance Activities		
Budgetary Resources Obligated		
Obligations Incurred	$ 118,722	$ 114,184
Less: Spending Authority from Offsetting Collections and Recoveries	(8,886)	(7,300)
Obligations Net of Offsetting Collections and Recoveries	109,836	106,884
Less: Offsetting Receipts	(9)	(202)
Net Obligations	109,827	106,682
Other Resources		
Imputed Financing from Costs Absorbed by Others	4,340	2,946
Other Resources	(2)	(1)
Net Other Resources Used to Finance Activities	4,338	2,945
Total Resources Used to Finance Activities	$ 114,165	$ 109,627

	2018	2017
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 (+/-)	$ (1,569)	$ (1,008)
Resources that Fund Expenses Recognized in Prior Periods	2	64
Other Budgetary Offsetting Collections and Receipts that do not Affect Net Cost of Operations	(9)	(202)
Resources that Finance the Acquisition of Assets	1,541	1,226
Other Resources or Adjustments to Net Obligated Resources that do not Affect Net Cost of Operations (+/-)	(982)	(200)
Total Resources Used to Finance Items not Part of the Net Cost of Operations	(1,017)	(120)
Total Resources Used to Finance the Net Cost of Operations	$ 115,182	$ 109,747
Components of the Net Cost of Operations Requiring or Generating Resources in Future Periods		
Components Requiring or Generating Resources in Future Periods:		
Other (+/-)	$ 76	$ 278
Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods	$ 76	$ 278
Components of the Net Cost of Operations not Requiring or Generating Resources		
Depreciation and Amortization	$ 1,758	$ 2,234
Total Components of Net Cost of Operations that will not Require or Generate Resources	$ 1,758	$ 2,234
Total Components of Net Cost of Operations that will not Require or Generate Resources in the Current Period	$ 1,834	$ 2,512
NET COST OF OPERATIONS	$ 117,016	$ 112,259

Note 19. Contingent Liabilities

As of September 30, 2018, TTB is not party to any legal matters where the likelihood of a material loss is reasonably possible.

3.3 SUPPLEMENTAL INFORMATION

Required Supplementary Information (Unaudited)

Budgetary Information

Budgetary information aggregated for the purposes of the Statement of Budgetary Resources should be disaggregated for each of an entity's major budget accounts (i.e., Appropriated Funds, Trust Funds, Revolving Funds, or other funds) and presented as Supplementary Information. However, for proprietary reporting, TTB only has appropriated funds. Consequently, a Combining Statement of Budgetary Resources disaggregated by fund type has not been presented.

Excise Tax and Other Collections

Required Supplementary Information
Excise Tax and Other Collections by Fiscal Year
Unaudited (In Thousands)

Fiscal Year	Alcohol	Tobacco	FAET	SOT	FST	Other	Total
2009	$ 7,424,292	$ 11,548,504	$452,693	$ 272	$1,192,375	$ 970	$ 20,619,106
2010	7,476,789	15,913,479	360,813	300	8,558	180	23,760,119
2011	7,594,330	15,515,073	344,262	268	5,220	2,257	23,461,410
2012	7,856,391	15,002,616	514,622	249	5,942	61	23,379,881
2013	7,851,953	14,321,017	762,836	280	1,521	38	22,937,645
2014	7,924,951	13,552,711	768,927	332	465	2	22,247,388
2015	7,997,467	13,620,497	638,518	288	2,444	7	22,259,221
2016	8,075,476	13,274,371	749,789	258	245	505	22,100,644
2017	8,103,714	12,966,317	761,630	227	69	521	21,832,478
2018	7,877,214	12,050,283	624,802	273	7	1,006	20,553,585
Average	$ 7,818,258	$ 13,776,487	$597,889	$ 275	$ 121,685	$ 555	$ 22,315,148

FAET – Firearms and Ammunition Excise Tax
SOT – Special Occupational Tax
FST – Floor Stocks Tax

TTB collects FAET taxes on behalf of the Department of Interior, U.S. Fish and Wildlife Service, and deposits the collections directly into the Wildlife Restoration Fund. During fiscal years 2018 and 2017, TTB incurred $2.4 million and $2.2 million respectively of direct and indirect costs associated with collecting the FAET taxes. The law currently does not provide for TTB to recover these costs. The cost of the program was communicated to the U.S. Fish and Wildlife Service so the agency could properly record an imputed cost in its financial records.

Refunds, Cover-over Payments, and Drawback Payments

Required Supplementary Information
Refunds, Cover-over Payments and Drawback Payments by Fiscal Year
Unaudited (In Thousands)

Fiscal Year	Cover-over Puerto Rico	Cover-over Virgin Islands	AT&F Excise Tax	Drawbacks MNBP Claims	Interest and Other	Total
2009	$ 472,695	$ 8,624	$ 17,791	$ 268,612	$ 252	$ 767,974
2010	378,186	8,871	28,232	297,596	315	713,200
2011	452,040	9,592	33,414	306,584	418	802,048
2012	376,373	9,337	30,293	289,330	3,824	709,157
2013	349,017	8,706	35,278	345,231	452	738,684
2014	303,457	8,279	40,600	316,040	358	668,734
2015	343,429	7,093	27,776	306,640	151	685,089
2016	416,815	7,975	34,799	355,668	162	815,419
2017	364,804	5,122	55,839	350,055	136	775,956
2018	446,026	8,708	44,848	273,927	635	774,144
Average	$ 390,284	$ 8,231	$ 34,887	$ 310,968	$ 670	$ 745,041

AT&F – Alcohol, Tobacco, and Firearms
MNBP – Manufacturer of Nonbeverage Products

Other Accompanying Information (Unaudited)

Other Accompanying Information
Combined Schedule of Spending
For the Years Ended September 30, 2018 and 2017
Unaudited (In Thousands)

	2018	2017
What Money is Available to Spend		
Total Resources	$ 125,792	$ 120,301
Less: Amount Available but not Agreed to be Spent	(5,430)	(4,540)
Less: Amount Not Available to Be Spent	(1,640)	(1,577)
Total Amounts Agreed to be Spent	$ 118,722	$ 114,184
How was the Money Spent		
Collect the Revenue		
Object Class 11: Personnel Compensation	$ 23,748	$ 24,115
Object Class 12: Personnel Benefits	7,745	7,819
Object Class 21: Travel	1,149	1,201
Object Class 23: Rent, Utilities, and Telecommunications Services	2,706	2,753
Object Class 25: Contractual Services	19,161	17,567
Object Class 31: Equipment and Software	1,533	1,607
Other	604	387
Total Collect the Revenue	56,646	55,449
Protect the Public		
Object Class 11: Personnel Compensation	29,146	26,823
Object Class 12: Personnel Benefits	9,275	8,483
Object Class 21: Travel	1,044	611
Object Class 23: Rent, Utilities, and Telecommunications Services	2,943	2,907
Object Class 25: Contractual Services	17,295	17,529
Object Class 31: Equipment and Software	1,303	1,542
Other	681	347
Total Protect the Public	61,687	58,242
Total Spending	118,333	113,691
Change in Amounts Remaining to be Spent	389	493
Total Amounts Agreed to be Spent	$ 118,722	$ 114,184
Who did the Money go to		
Federal Recipients	$ 28,032	$ 27,244
Non-Federal Recipients	90,301	86,447
Total Spending	118,333	113,691
Change in Amounts Remaining to be Spent	389	493
Total Amounts Agreed to be Spent	$ 118,722	$ 114,184

Intragovernmental Assets

Other Accompanying Information
Intragovernmental Assets
As of September 30, 2018
Unaudited (In Thousands)

Trading Partner	Agency Code	Fund Balance W/ Treasury	Accounts Receivable
Department of the Treasury	020	$ -	$ 1,345
General Fund	--	40,535	19,428
Total		$ 40,535	$ 20,773

Other Accompanying Information
Intragovernmental Assets
As of September 30, 2017
Unaudited (In Thousands)

Trading Partner	Agency Code	Fund Balance W/ Treasury	Accounts Receivable
Department of the Treasury	020	$ -	$ 454
Department of Health and Human Services	075	-	2
General Fund	--	43,020	12,384
Total		$ 43,020	$ 12,840

Intragovernmental Liabilities

Other Accompanying Information
Intragovernmental Liabilities
As of September 30, 2018
Unaudited (In Thousands)

Trading Partner	Agency Code	Accounts Payable	Accrued FECA	Custodial and Other Liabilities
Government Printing Office	004	$ 58	$ -	$ -
Department of the Interior	014	-	-	6,086
Department of Justice	015	775	-	-
Department of Labor	016	-	8	-
Department of the Treasury	020	384	-	-
Office of Personnel Management	024	-	-	424
General Services Administration	047	286	-	-
General Fund	--	-	-	18,581
Total		$ 1,503	$ 8	$ 25,091

Other Accompanying Information
Intragovernmental Liabilities
As of September 30, 2017
Unaudited (In Thousands)

Trading Partner	Agency Code	Accounts Payable	Accrued FECA	Custodial and Other Liabilities
Government Printing Office	004	$ 162	$ -	$ -
Department of the Interior	014	-	-	8,104
Department of Justice	015	621	-	-
Department of Labor	016	-	5	-
Department of the Treasury	020	110	-	-
Office of Personnel Management	024	-	-	414
General Services Administration	047	99	-	-
General Fund	--	-	-	15,991
Total		$ 992	$ 5	$ 24,509

Other Accompanying Information
Intragovernmental Earned Revenue
For the Fiscal Years Ended September 30, 2018 and 2017
Unaudited (In Thousands)

Trading Partner	Agency Code	2018	2017
Department of Treasury	020	$ 2,684	$ 2,321
Department of Homeland Security	070	24	-
Department of Health and Human Services	075	-	9
Total		$ 2,708	$ 2,330

Budget Function Classification (BFC)	BFC Code	2018	2017
Central Fiscal Operations	803	$ 2,708	$ 2,330
Total		$ 2,708	$ 2,330

Intragovernmental Gross Cost

Other Accompanying Information
Intragovernmental Gross Cost
For the Fiscal Years Ended September 30, 2018 and 2017
Unaudited (In Thousands)

Trading Partner	Agency Code	2018	2017
Library of Congress	003	$ 35	$ 52
Government Printing Office	004	144	248
Department of Commerce	013	2	2
Department of Interior	014	43	48
Department of Justice	015	899	805
Department of Labor	016	6	3
United States Postal Services	018	16	20
Department of the Treasury	020	6,534	6,534
Office of Personnel Management	024	15,456	13,694
Department of Veterans Affairs	036	6	-
General Services Administration	047	4,926	5,052
Securities and Exchange Commission	050	1	-
Department of the Air Force	057	20	5
Environmental Protection Agency	068	15	2
Department of Homeland Security	070	287	330
Department of Health and Human Services	075	48	25
National Archives Records Administration	088	49	37
Department of Defense	097	24	45
Bureau of Consumer Financial Protection	581	1	-
General Fund	--	3,632	3,428
Total		$ 32,144	$ 30,330

During fiscal years 2018 and 2017, TTB incurred costs with other Federal agencies totaling approximately $32.1 million and $30.3 million, in each year respectively. The majority of those costs were associated with the five entities detailed below.

- **Department of Justice:** TTB paid ATF $899,000 and $805,000 in fiscal years 2018 and 2017 respectively, for shared lab space and shared building services.
- **Department of the Treasury:** The Bureau received law enforcement services from the IRS, as well as administrative services from the Bureau of the Fiscal Service's Administrative Resource Center, in fiscal years 2018 and 2017 in the amounts of $6.5 million in each year respectively.
- **Office of Personnel Management:** TTB incurred $15.5 million and $13.7 million in costs for employee benefits during fiscal years 2018 and 2017 respectively.
- **General Services Administration:** TTB paid $4.9 million and $5.1 million to GSA for rent and information technology services in fiscal years 2018 and 2017 respectively.
- **General Fund:** The Bureau paid $3.6 and $3.4 million, in fiscal years 2018 and 2017 respectively, for employee benefits and lockbox fees.

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PART IV
APPENDICES

4.1 PRINCIPAL OFFICERS OF TTB

Administrator	John Manfreda
Deputy Administrator	Mary Ryan
Assistant Administrator, Chief of Staff/External Affairs	Elisabeth Kann
Assistant Administrator, Field Operations	Ron Hancock (Acting)
Assistant Administrator, Permitting & Taxation	Pam Sikowitz (Acting)
Assistant Administrator, Headquarters Operations	Daniel Riordan (Acting)
Assistant Administrator, Management/CFO	Cheri Mitchell
Assistant Administrator, Information Resources/CIO	Robert Hughes
Equality, Diversity, and Inclusion	Tram-Tiara Ngo
Chief Counsel	Anthony Gledhill

For additional information, contact:

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(202) 453-2000

http://www.ttb.gov

4.2 CONNECTING THE TREASURY AND TTB STRATEGIC PLANS

TREASURY GOAL	TREASURY OBJECTIVE	TTB STRATEGIC GOAL/OBJECTIVE
GOAL 1: Boost U.S. Economic Growth	**Objective 1.1. Tax Law Implementation:** Administer tax law to better enable all taxpayers to meet their obligations, while protecting the integrity of the tax system	**TTB Goal 3:** Improve Tax Compliance through Increased Voluntary Compliance and Enhanced Enforcement
		TTB Goal 4: Address Cross-Border Tax Risk through Data Driven Enforcement
	Objective 1.3. Trusted Currency and Service: Deliver trusted currency and services that enable citizens and businesses to participate in the economy	**TTB Goal 1:** Facilitate Commerce through the Timely Issuance of Permits to Qualified Applicants
		TTB Goal 2: Facilitate Commerce through the Timely Issuance of Permits to Qualified Applicants
	Objective 1.4. Free and Fair Trade: Advance a free and fair trade environment for U.S. businesses through successful negotiation of trade agreements and investment policies	**TTB Objective:** Ensure Level Playing Field
GOAL 5: Achieve Operational Excellence	**Objective 5.1. Workforce Management:** Foster a culture of innovation to hire, engage, develop, and optimize a diverse workforce with the competencies necessary to accomplish our mission TTB supports all Treasury objectives in this strategic goal, which may be viewed at treasury.gov.	**TTB Goal 5:** Equip the Workforce for Professional Growth and Development by Revitalizing TTB Training

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