Audit Report

OIG-20-021

FINANCIAL MANAGEMENT

Audit of the Alcohol and Tobacco Tax and Trade Bureau's Financial Statements for Fiscal Years 2019 and 2018

December 13, 2019

Office of Inspector General
Department of the Treasury

ACCESSIBILITY NOTICE

The attachment to our report, the Alcohol and Tobacco Tax and Trade Bureau's (TTB) FY 2019 Annual Report, does not conform to the requirements of Section 508 of the Rehabilitation Act of 1973, as amended,
because TTB has not yet created the web version of its
FY 2019 Annual Report.

Once available[1], we will replace their report.

[1] On https://www.ttb.gov/about/performance-reports.shtml

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

December 13, 2019

MEMORANDUM FOR MARY RYAN, ACTING 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 2019 and 2018

We hereby 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, 2019 and 2018, 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. 19-03, *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 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 13, 2019, 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.

If you wish to discuss this report, 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

FY 2019 Annual Report

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INTRODUCTION

Within its FY 2019 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, 2019, and September 30, 2018, 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

This was a year of unexpected and unprecedented challenges. TTB was one of the many government entities that was affected by the prolonged partial government shutdown, creating difficult and lasting consequences across TTB programs this year. However, our challenges ran much deeper when, in May, we suffered the loss of an incomparable leader and public servant in our Administrator, John Manfreda.

Recovering from these setbacks has taken time and, in many ways, is still ongoing. We returned at the end of January 2019 to backlogs that seemed insurmountable, aware of the fact that many of our industry members were in the difficult position of awaiting TTB approval to expand their business or introduce new product lines. We made returning to timely service our top priority and, through intensive recovery efforts, we ended the fiscal year positioned to meet our performance goals in each of our core programs in FY 2020. However, as we directed our attention to reducing backlogs, we were forced to make tradeoffs in some of our key strategic initiatives to improve systems, processes, policies, and guidance, all of which are necessary to achieve and sustain long-term performance improvements.

Although delayed, we are undeterred from shoring up the risks that present barriers to achieving our strategic goals. We are entering the new fiscal year with plans to modernize our technology platforms, with the aim of providing a seamless and integrated online experience for our industry members to complete business transactions with TTB. These system upgrades will also substantially improve internal processing efficiencies and data quality, which are critical to strategic resource alignment and data-driven enforcement. We are also moving forward with broad-based revisions to federal permit and tax filing requirements, seeking to reduce the regulatory burden while improving the information we collect to ensure a level playing field for industry.

We are also entering the year ahead better equipped to develop targeted strategies to improve taxpayer compliance, with new methods and analytic tools for timely identifying and addressing compliance issues. With continued industry growth, these enhancements to our operations are critical so that we can focus on addressing significant violations while supporting those industry members who want to voluntarily comply. Further, with continued growth comes increased competition, and TTB remains committed to addressing prohibited trade practices that harm the small businesses that comprise the majority of TTB's tax base.

Our success in executing our strategy remains dependent on the dedication of our workforce. For this reason, I am confident in what the future holds. At our center, we remain the same organization, committed to integrity, innovation, and professionalism in every respect. As we always have, we will meet the challenges ahead through open, transparent engagement with our partners and key stakeholders to achieve common sense solutions that drive performance results.

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

Mary Ryan

TTB Administrator (Acting)

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.

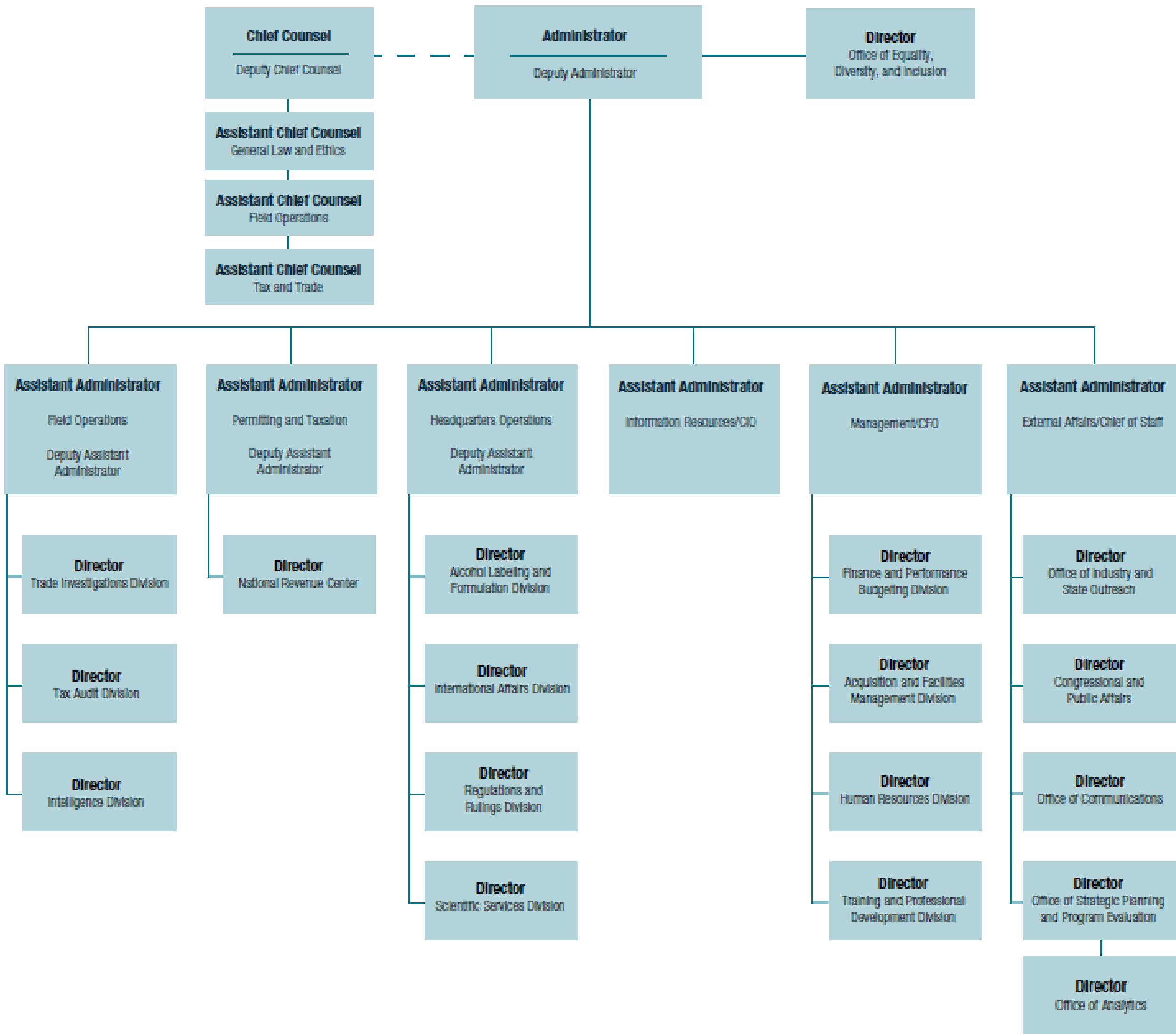
- **INTEGRITY.** We foster trust through honesty and transparency, conduct ourselves with professionalism and candor, and treat others with respect.

- **RESULTS.** We are accountable and committed to delivering meaningful results.

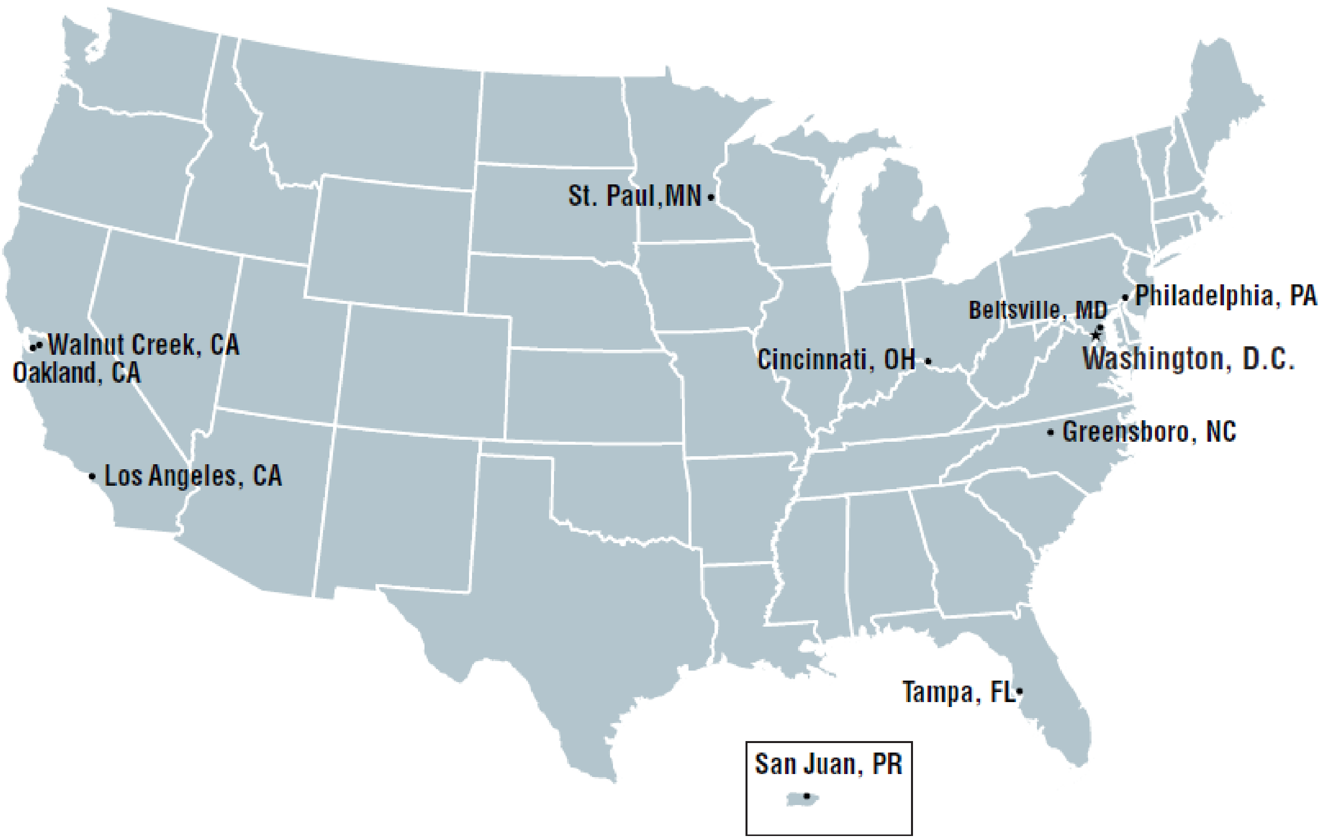
- **ACCESSIBILITY.** We are available to the public and our colleagues through communication and partnership.

- **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 2018	FY 2019
Employees	503	521
Office Locations	11	11
Budget Authority	$111.4 Million	$119.6 Million
Revenue Collected	$20.6 Billion	$19.8 Billion

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

PART I
MANAGEMENT'S DISCUSSION AND ANALYSIS

1.1 Profile of the 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 520 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.

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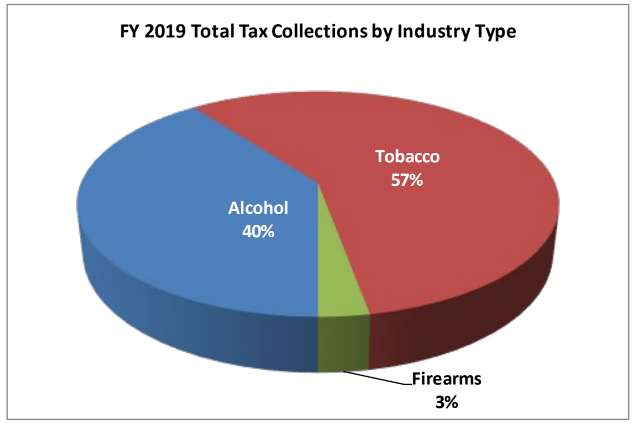
[1] Chapters 51 and 52 of the IRC provide for excise taxation and authorize operations of alcohol and tobacco producers and related industries, and IRC sections 4181 and 4182 provide for excise taxes for firearms and ammunition.

[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 $19.8 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 57 percent of TTB's total excise tax collections.

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 stimulate 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.

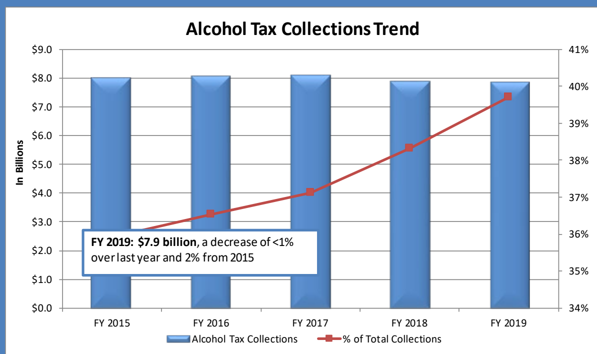
This authority also calls for TTB to prevent misleading labeling or advertising that may result in consumer deception regarding alcohol beverage products. TTB confirms compliance with federal product and labeling regulations by reviewing production records through product integrity investigations and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

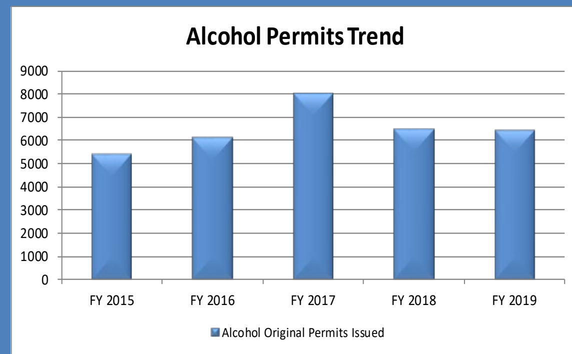
TTB is also charged with ensuring that the alcohol marketplace is free from practices that would stifle competition and act as a barrier to trade. TTB meets this mandate through a variety of activities under its Trade Facilitation program. TTB actively enforces the provisions of the FAA Act that prohibit 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 federal 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.

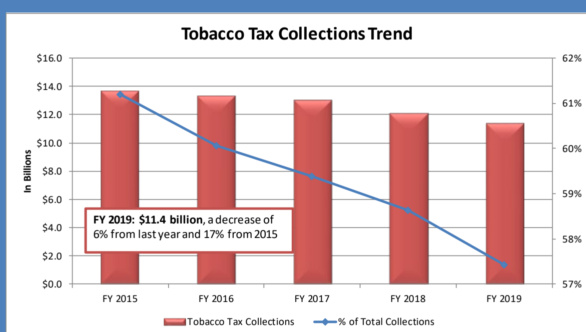
In all of TTB’s Collect the Revenue and Protect the Public programs, the Bureau promotes voluntary compliance by providing clearer regulatory standards and guidance, encouraging use of its electronic filing systems (eGov), and supporting industry members through education and outreach efforts. TTB also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

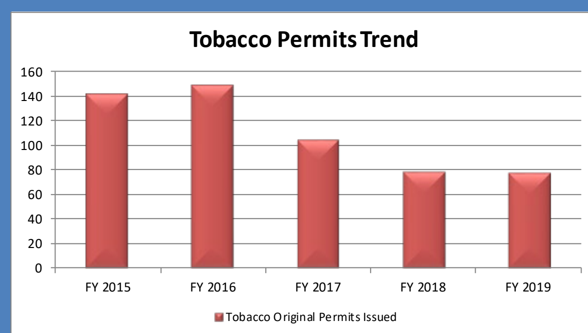
Alcohol Industry Snapshot



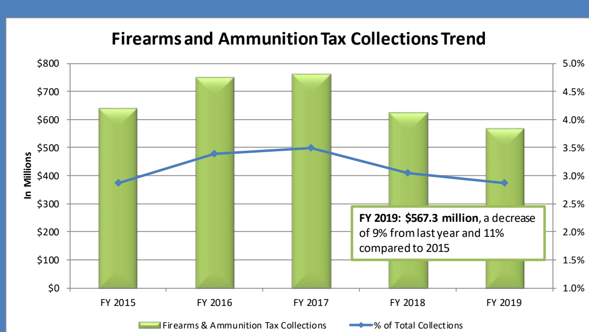


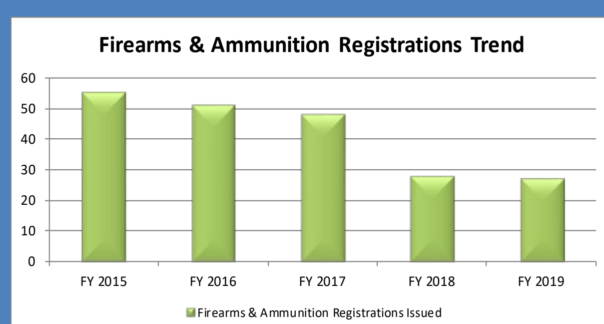
Tobacco Industry Snapshot





Firearms and Ammunition Industry Snapshot





1.2 Enterprise Risks and Challenges

TTB must effectively manage risks to achieve its strategic goals and objectives. TTB employs 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 among its key strategic mission and operational risks in FY 2019.

- **Tax Reform Implementation.** The craft beverage modernization provisions of the Tax Cuts and Jobs Act (Public Law 115-97) are scheduled to expire on December 31, 2019, with uncertainty as to if and when they may be extended. As such, advance planning in terms of preparing any related guidance, procedures, and regulations for FY 2020 and beyond remains a challenge. If the provisions are extended, TTB will continue its work to mitigate risks associated with tax oversight and enforcement related to expanded eligibility for reduced rates and tax credits through timely policy decisions and industry guidance, and will continue to coordinate with U.S. Customs and Border Protection on the import provisions of the law to ensure that eligible taxpayers correctly apply the reduced tax rates and credits for alcohol products.
- **Industry Growth and Compliance.** 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, facilitating voluntary compliance, 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 implementation of Treasury's Integrated Talent Management System. TTB is also employing a variety of human capital policies and programs to address hiring delays that exacerbate these risks, such as expanding its use of special hiring authorities, including those for veterans and persons with disabilities.
- **Legacy Technology.** TTB needs to modernize its outdated systems to enable further improvements to Bureau processes and filing requirements, which will reduce burden on industry members and help to reverse a downward trend in voluntary compliance. Legacy systems also present challenges to obtaining reliable data for timely analysis and decision-making. 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 is also deploying a web services environment based on a modernized architecture for its core business systems to enable the Bureau to increase the pace of delivery, streamline system maintenance processes, and provide an improved user experience.
- **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 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.

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 necessary for any organization, 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
Improve Reliable Service	X	X			X
Increase Voluntary Compliance	X	X	X		
Ensure Level Playing Field	X	X	X	X	
Reduce Illicit Trade				X	
Improve Strategic Resourcing	X	X	X	X	X
Maximize Resource Efficiency	X	X	X	X	X
Update Regulatory Requirements	X	X	X	X	
Improve Policies, Processes, & Documentation	X	X	X	X	X
Improve Internal Communication & Coordination	X		X	X	X
Enhance External Communication & Outreach	X	X	X		
Improve Data Driven Decision Making	X	X	X	X	
Enhance Risk-Based Enforcement		X	X	X	
Enhance Professional Expertise	X	X	X	X	X
Improve Employee Engagement	X	X	X	X	X
Optimize Electronic Systems	X	X	X	X	X
Increase Data Quality & Analytical Capacity	X	X	X	X	X

1.4 Performance Highlights

TTB's diverse program activities under its Collect the Revenue and Protect the Public missions 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.

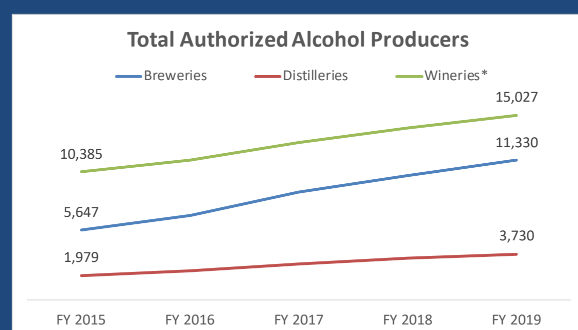
In FY 2019, TTB received approximately 7,800 applications for a federal permit or registration, and qualified approximately 6,400 new businesses. These are predominantly small businesses, which contribute to local job opportunities and often lead the industry in product innovation. Today, TTB regulates more than 99,800 industry members.

Expansion of the alcohol beverage industry in recent years has increased the number of TTB permittees, particularly in terms of new alcohol producers. This growth in workload had contributed to delayed permit approvals by TTB – peaking at 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, TTB established a two-year priority goal for FY 2018-2019 to reduce average approval times for alcohol and tobacco business permits by at least 20 percent and achieve the 75-day standard for 85 percent of applicants by September 30, 2019.

In FY 2019, 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 businesses with a 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 2015, the number of authorized wineries has increased 45 percent. The growth rate for brewers and distillers has been far greater, at roughly 100 percent and 90 percent, respectively.

GOAL 1 PERFORMANCE HIGHLIGHTS

In FY 2019, despite significant challenges, TTB continued to make progress toward its strategic goal to timely issue permits to qualified applicants. TTB met one of its two priority goal targets by the end of FY 2019, reducing average approval times by 20 percent from 96 days in FY 2017 to 75 days in FY 2019. However, TTB fell short of its second target to achieve the 75-day service standard for 85 percent of permit applicants.

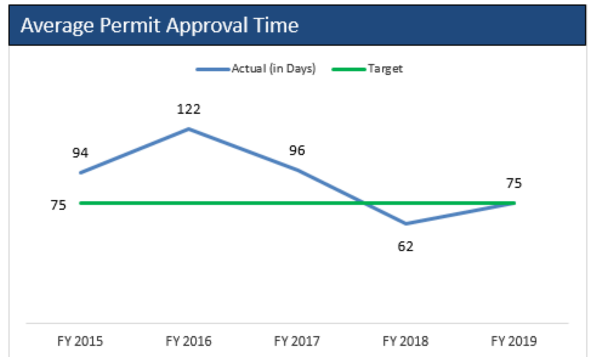
In FY 2019, during the partial government shutdown, with industry continuing to file for federal permit approval, the backlog of pending applications continued to increase and age. As a result, for FY 2019, TTB issued 58 percent of permit applications within its 75-day service standard. Through concerted recovery efforts, however, TTB ended the fiscal year with 68 percent of applications issued within 75 days in September 2019, which positions TTB to achieve this priority goal target in FY 2020.

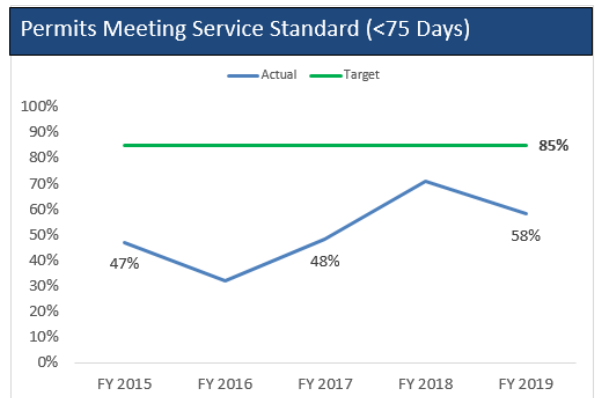
Even as TTB remained focused on achieving near term improvements in service delivery, the Bureau continued its broader program improvements to sustain these performance levels in the future. These strategies include system, policy, and process improvements as well as strategic workforce management.

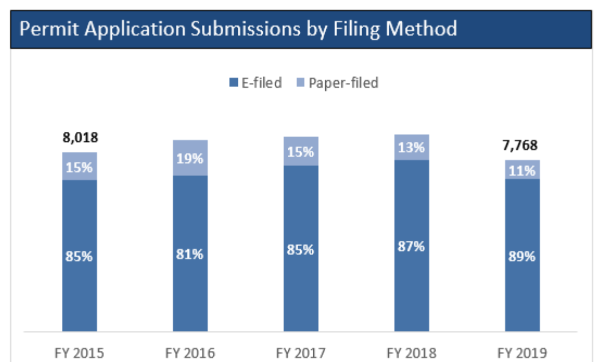
The redesigned Permits Online released late in FY 2018 helped TTB achieve high electronic filing rates to support timely processing, which trended positively in FY 2019 to 89 percent for new permit applications and 83 percent for submissions to amend a permit. The new system improves navigation and guidance to support industry members in filing complete and compliant applications the first time, an important strategy for TTB's ability to sustain performance improvements.

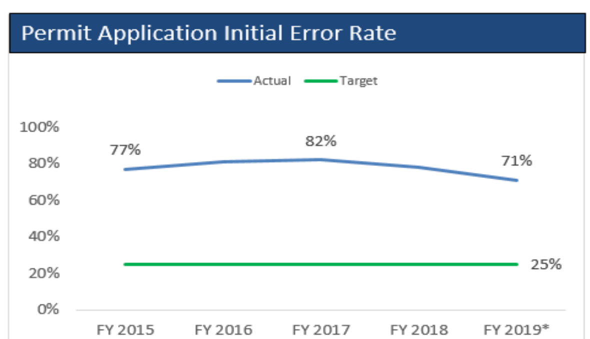
In addition, through system releases in FY 2019, TTB continued to implement initial phases of revised permit application requirements, which have reduced filing burden by eliminating a number of questions and extensive supplemental documentation.

As a result of these improvements, TTB was able to bend the curve on the high volume of applications submitted with errors. Reducing errors on applications is critical to improving timely service, as time spent returning applications to applicants for corrections or additional supporting information adds significantly to overall processing times. Since FY 2015, error rates on permit applications have remained around 80 percent. For FY 2019, the error rate on









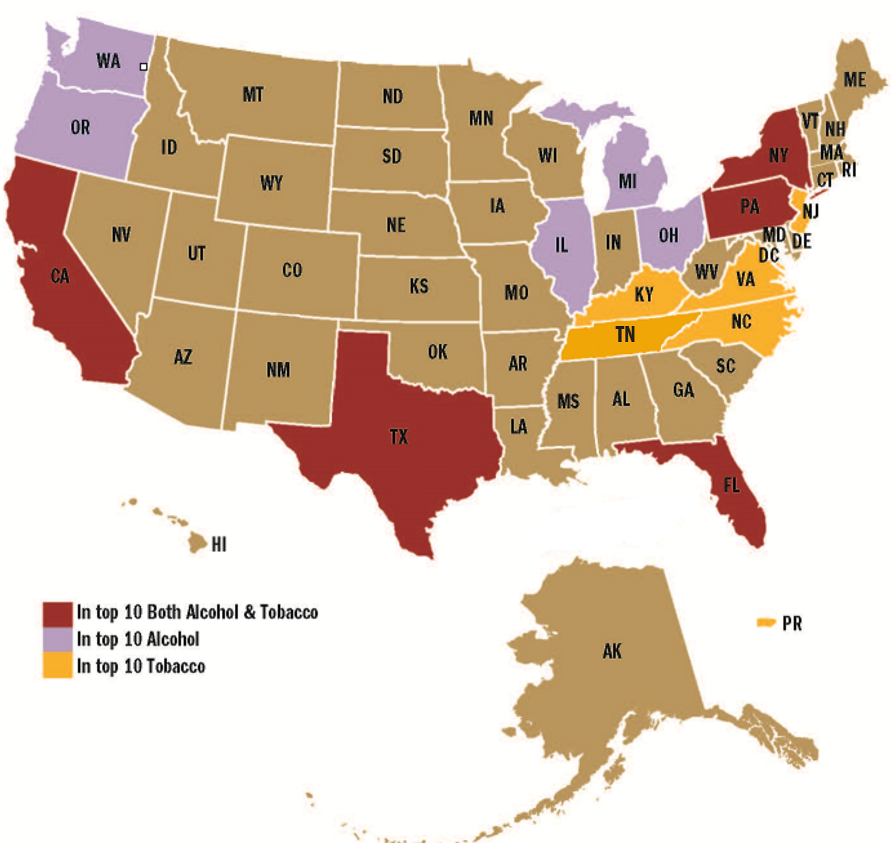
*Estimated result due to data quality issue identified in Q4 permit applications decreased to 71 percent, with improvements achieved across most application types.

TTB will remain focused on improving performance through FY 2020, which will require managing the significant challenges and risks associated with overall workload volume, including the ongoing high error rate for applications. TTB expects to achieve and maintain its performance goals through Permits Online enhancements, continued process improvements, enhanced industry guidance, and implementation of permit application updates, with the full impact of these changes expected to be realized by FY 2022.

In FY 2020, TTB expects to sustain timely service delivery by finalizing implementation of Lean Six Sigma process improvements 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. TTB will also continue to refine its risk-based techniques for screening permit applications for additional review or field investigation prior to issuance. Enhancements that TTB intends to pilot in FY 2020 should support further improvements to both the quality and timeliness of TTB application approvals.

TTB is also working toward longer-term program improvements. In FY 2020, TTB plans to initiate rulemaking as part of its initiative to simplify TTB permit application requirements in addition to continuing to implement additional interim updates prior to rulemaking, wherever possible. These actions will reduce burdens related to permit applications on industry and TTB, while maintaining adequate controls to ensure revenue and market protection. Additionally, in FY 2020, TTB will launch an IT modernization initiative that will replace its legacy systems and provide an integrated online filing experience for industry members. The multi-year initiative, which is dependent on funding, will include incremental releases with permit application updates as well as additional process improvements.

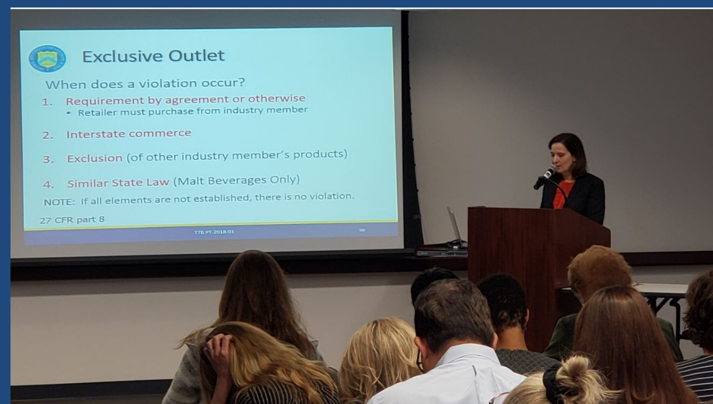
FY 2019 Permittees by State



Top 10 States by Number of Alcohol Producer Permits	
State	# Permit Holders
California	9,089
New York	2,467
Washington	2,385
Texas	2,155
Pennsylvania	1,870
Michigan	1,775
Oregon	1,593
Ohio	1,550
Florida	1,406
Illinois	1,265

Top 10 States by Number of Tobacco Permits	
State	# Permit Holders
Florida	232
California	89
New York	74
North Carolina	71
Virginia	47
Texas	43
Pennsylvania	34
New Jersey	32
Kentucky	21
Puerto Rico & Tennessee	18

TTB TRADE PRACTICE PROGRAM



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.

Since 2017, TTB's enacted budget has included directed funding for the purpose of increasing trade practice enforcement. With these resources, TTB established an Office of Special Operations within its Trade Investigations Division, which includes dedicated investigators to increase trade practice enforcement. TTB started FY 2019 with 54 open investigations and initiated 9 new investigations this year, which included the effective use of National Response Teams to conduct larger, more complex investigations, as well as partnerships with state law enforcement authorities in Missouri, New York, and Iowa.

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. In FY 2020, in the third year since receiving dedicated resources, TTB closed 40 trade practice cases with 75 percent resulting in successful outcomes. These successful resolutions included 5 significant Offers-in-Compromise; 22 permittees that served suspensions; and 3 businesses that either surrendered their permits or went out of business in lieu of TTB taking an adverse action.

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 2019, TTB hosted a series of well-attended trade practice seminars in partnership with state authorities at strategic locations across the country. In all, approximately 600 industry members and key stakeholders registered to attend the FY 2019 seminars.

In addition, TTB representatives conducted multiple online webinars and attended 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. TTB outreach plans in FY 2020 include new online video resources on prohibited trade practices for on-demand access by industry members as well as continued education through webinars and speaking engagements at industry events.

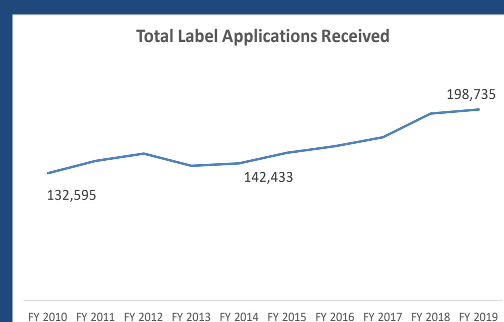
GOAL 2: Facilitate Commerce through a Modern Labeling Program Focused on Service and Market Compliance

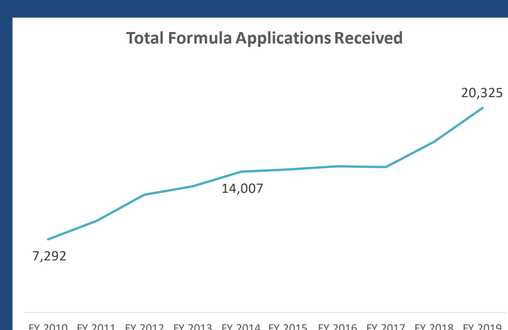
Consumer confidence is essential to ensuring that the U.S. economy performs at its full potential. TTB is responsible for carrying out provisions of the FAA Act to ensure that the labeling and advertising of alcohol beverages provide adequate information to consumers concerning the identity and quality 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 2010, the total number of alcohol beverage label applications has increased 50 percent, despite TTB's implementation of strategies to reduce filing requirements in certain low-risk areas. These policy changes resulted in TTB slowing the pace of growth temporarily; however, TTB has seen an historically high volume of label submissions in recent years, up nearly 20 percent over the last two years. These increases cut across all alcohol commodities, and include both imported and domestic products; however, malt beverage and distilled spirits label applications continue to drive these increases. In the last five years, malt beverage applications have nearly doubled, and spirits applications have increased by 55 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 180 percent. Policy changes implemented by TTB were also successful in temporarily curbing the growth in formulas, particularly in malt beverage submissions; however, market trends that include flavored wine, hard cider, and malt beverages have resulted in increased formulas for these products, generally offsetting prior reductions. Over the last two years, formula submissions have increased nearly 40 percent, with wine and malt beverage formulas increasing at the fastest rate, up approximately 35 percent compared to FY 2018.

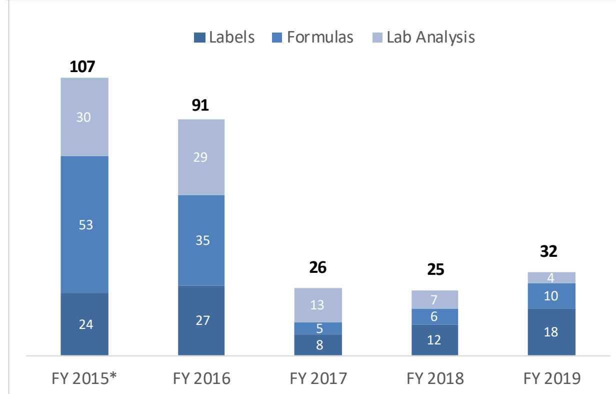
In FY 2019, TTB's continuous improvement efforts in this goal centered on the following key strategic objectives:

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

GOAL 2 PERFORMANCE HIGHLIGHTS

In FY 2019, TTB faced challenges in achieving its strategic goal to modernize its labeling program, losing ground on progress made in prior years in terms of maintaining timely service. During the partial government shutdown, the size and age of TTB's label and formula backlog also continued to increase. Further, with ongoing product innovation, FY 2019 marked another year of increased submission volume. Despite these challenges, TTB maintained its service standards for labels and formulas at 15 days in FY 2019.

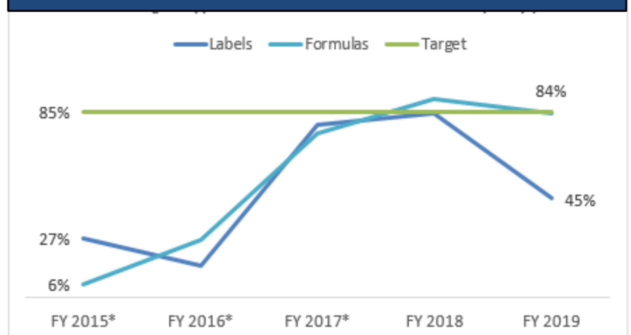
Total Average Review Time (calendar days)



*Estimated values

Through concerted recovery efforts, including effectively managing its backlog and strategic workforce management, TTB was able to respond to these challenges. For FY 2019, TTB sustained average processing times near or below its service standards, and maintained a total average review time of approximately 30 days for products requiring lab analysis, formula approval, and label approval. However, in terms of consistent service, TTB fell short of its target to process 85 percent of label and formula applications within the 15-day standard, with 84 percent of formulas and 45 percent of labels approved in 15 days or less.

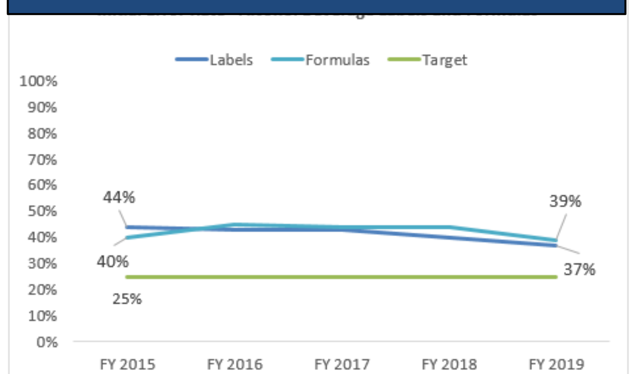
Labels & Formulas Meeting Service Standard (<15 days)



*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

In FY 2019, TTB focused 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. In the year ahead, 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 application error rates, with errors holding below 40 percent since FY 2018.

Label and Formula Application Initial Error Rate



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 2019, in response to industry input, TTB made substantial progress on improving wine labeling guidance, including a new wine home page as well as interactive label examples to explain and clarify requirements. TTB also made substantial progress in developing an updated web-based tool to assist wine producers and importers in determining whether their products require formula approval, which will be published in early FY 2020 with the aim of bringing down filings for products that do not require formula approval. Additional step-by-step guidance, including online videos, are planned for FY 2020 to support industry in checking label and formula compliance prior to submitting their application.

In addition, TTB will continue its efforts to improve industry guidance through updated labeling regulations. In FY 2019, TTB published a notice of proposed rulemaking intended to modernize federal labeling regulations by consolidating, streamlining, and simplifying requirements to reflect current TTB policy and modern industry practices. TTB plans to proceed with final rulemaking in FY 2020 for those proposals with broad consensus in order to reduce regulatory burden.

Finally, in FY 2020, TTB will continue to focus on incorporating random and risk-based product sampling to 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, policies, and priorities to effectively direct investigative and regulatory resources going forward.

AMERICAN VITICULTURAL AREAS

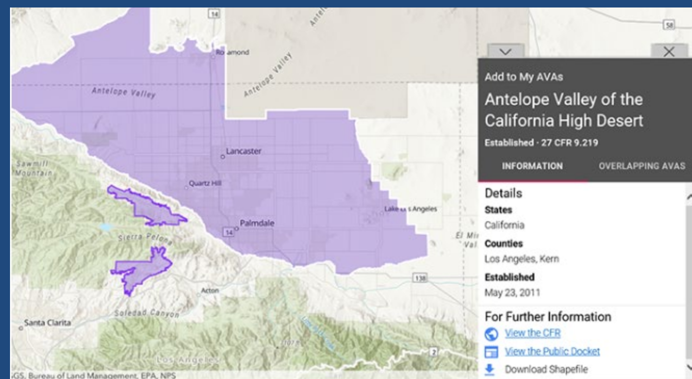
An American Viticultural Area (AVA) is a delimited grape-growing region having a name, a delineated boundary, and distinguishing features as described in Part 9 of the TTB regulations. Distinguishing features may include climate, geology, soils, physical features, and elevation.

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.

During FY 2019, TTB published 10 AVA-related rulemaking documents, including 5 proposed rules and 5 final rules. As a result of these final rules, at the end of FY 2019, TTB and its predecessor agency, the Bureau of Alcohol, Tobacco and Firearms, have established a total of 246 AVAs.

TTB also released new tools and resources on TTB.gov to improve public access to AVA-related information. The AVA Reading Room is an online resource that provides a collection of publicly available AVA documents, including petitions, proposed rules, final rules, and public comments for established and proposed AVAs.

The AVA Map Explorer is an interactive map tool that can be used to view the boundaries of all established and proposed AVAs. The Map Explorer has information about each AVA, including its state and county, when it was established, other AVAs it contains or is within, and a link to its codified official boundary description. For the first time, through this tool, the public can see the boundaries of proposed AVAs during the public comment period.



Screenshot of AVA Map Explorer tool, released on TTB.gov in September 2019, with the search criteria set to Antelope Valley of the California High Desert.

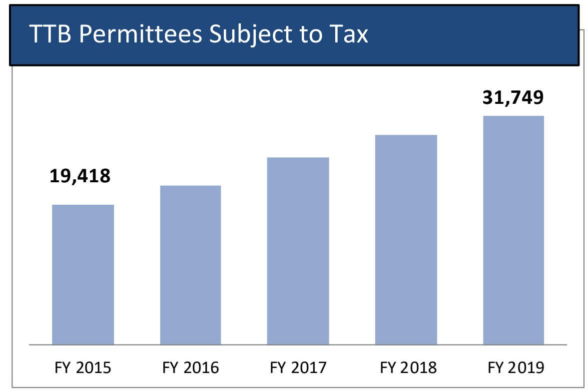
FY 2019 Proposed Rulemakings

- **Crest of the Blue Ridge Henderson County**, proposing a new AVA covering portions of Henderson County in North Carolina
- **West Sonoma Coast**, proposing new AVA in Sonoma County in California
- **Eastern Connecticut Highlands**, proposing a new AVA in portions of Hartford, Middlesex, New Haven, New London, Tolland, and Windham Counties in Connecticut
- **Candy Mountain**, proposing a new AVA in Benton County in Washington
- A fifth proposed rule proposed two adjacent AVAs, one in portions of Multnomah and Washington Counties in Oregon (**Tualatin Hills**), and the other in portions of Washington and Yamhill Counties in Oregon (**Laurelwood District**).

FY 2019 Final Rules

- **Upper Hudson**, establishing a new AVA in portions of Albany, Montgomery, Rensselaer, Saratoga, Schenectady, Schoharie, and Washington Counties in New York
- **Arroyo Seco**, expanding an established AVA in Monterey County in California
- **Van Duzer Corridor**, establishing a new AVA in portions of Polk and Yamhill Counties in Oregon
- **Monticello**, expanding an established AVA in portions of Albemarle, Fluvanna, Greene, Nelson, and Orange Counties in Virginia
- **Crest of the Blue Ridge Henderson County AVA**, establishing a new AVA in North Carolina (see above)

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



In FY 2019, TTB collected $19.8 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.

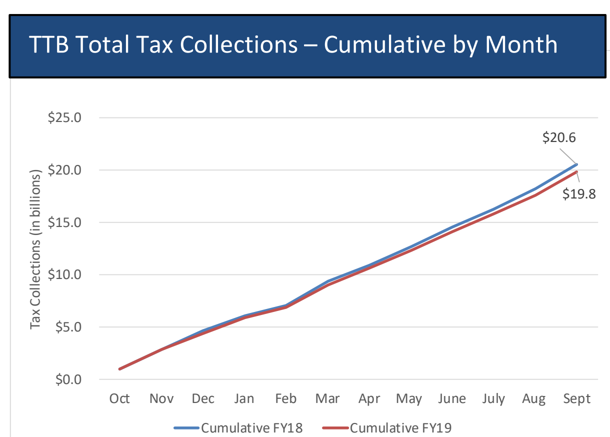
TTB will continue efforts to facilitate voluntary compliance through education and outreach to support industry in navigating complex tax requirements. TTB will also maintain a strategic focus on modernizing its filing requirements and tax systems to improve the ability to timely detect non-compliance 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) further increased the importance of these changes. These tax reform provisions include 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 2019 roughly 4 percent below the prior year.

Looking ahead, TTB will continue to address the compliance risks introduced by the updated tax provisions through additional industry guidance and developing analytic tools to detect and address high-risk activity and non-compliance. If extended by Congress beyond the initial two-year period, which ends on December 31, 2019, TTB will continue developing and implementing strategies to address these risks.

In FY 2019, TTB's continuous improvement efforts in this goal centered on the following key strategic objectives:

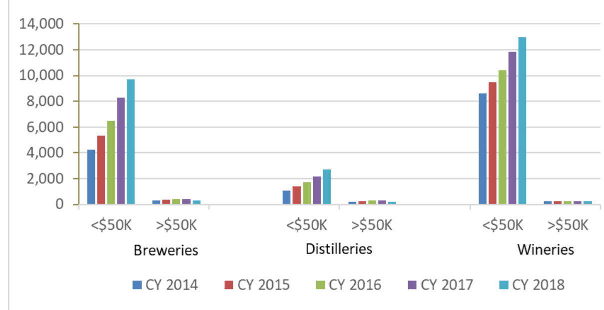
- Increase Voluntary Compliance
- Enhance External Communication & Outreach
- Improve Policies, Processes, & Documentation
- Optimize Electronic Systems
- Update Regulatory Requirements



GOAL 3 PERFORMANCE HIGHLIGHTS

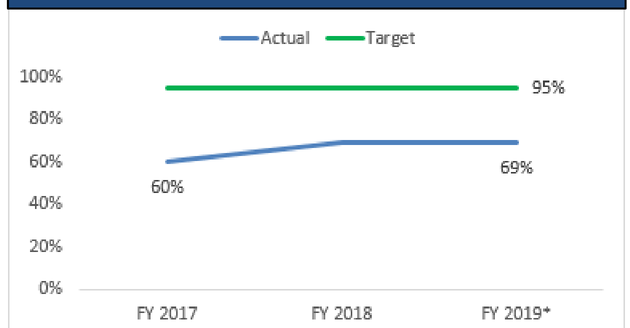
In FY 2019, TTB made progress towards its strategic goal to improve tax compliance in response to identified challenges in maintaining taxpayer filing compliance. The industries TTB regulates have grown significantly in recent years, which has created additional workload and enforcement challenges, particularly 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 60 percent.

Number of Alcohol Producers by Tax Liability



At the same time, filing compliance by TTB taxpayers has remained below target, hindering its ability to timely detect underreporting or fraud due to missing or late filings. Under a new measure methodology, TTB evaluates filing compliance at the taxpayer level, rather than on a per filing basis, using multiple compliance factors and strict tolerances based on revenue exposure. A taxpayer must meet all factors to be considered compliant for the year. TTB will use this information to take a risk-driven enforcement approach based on significant patterns of non-compliance with filing requirements.

Large Taxpayer Filing Compliance Rate – Returns/Payments (by taxpayer)



*Estimated result based on data through Q3 FY 2019 due to data latency issues with paper filings

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 based on statutory requirements. 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.

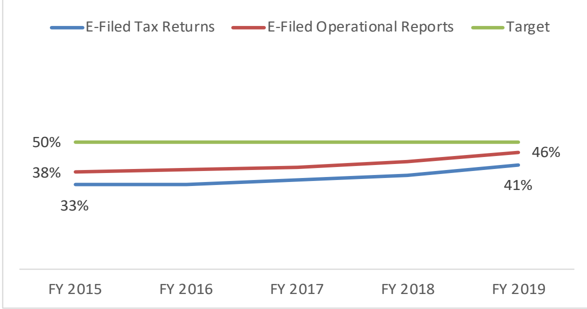
Large Taxpayer Filing Compliance Rate – Operational Reports (by taxpayer)

*Estimated result based on data through Q3 FY 2019 due to data latency issues with paper filings

Given the revenue exposure, TTB set a high bar for filing compliance for its largest taxpayers. Under these standards, compliance rates by large taxpayers in filing tax returns and payments present a challenge, with 69 percent meeting their filing obligations, below the 95 percent target. Performance results further indicate that compliance rates for operational reports, which provide important information for tax verification, are also below the 95 percent target, with overall filing compliance ending FY 2019 at 76 percent. TTB attributes these filing compliance rates to a number of factors, including overall industry growth and expansion, limited TTB resources to direct toward industry outreach, and competing TTB enforcement priorities. With late filings driving the vast majority of issues, TTB strategies will be focused on improving timeliness in FY 2020.

Timely addressing filing compliance is impeded by low electronic filing rates, with less than half of TTB taxpayers submitting their required filings to TTB through Pay.gov, which adds to inefficiencies in making data available for regular reconciliation or advanced analytics.

Taxpayer Electronic Filing Rates

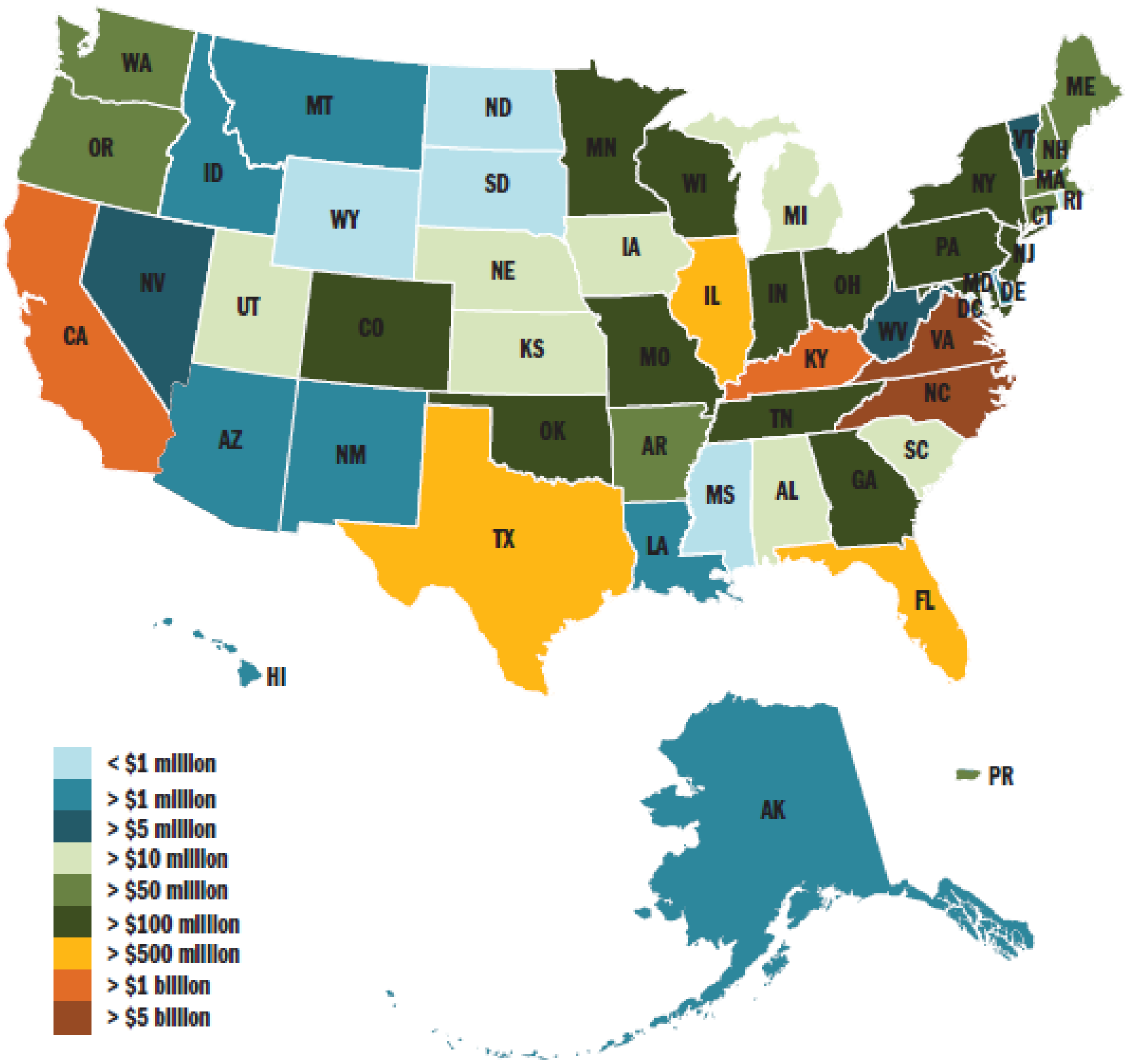


In FY 2019, TTB also continued its efforts to fully implement the Tax Cuts and Jobs Act. The law took effect on January 1, 2018, and required an immediate and coordinated approach to implement the extensive alcohol excise tax-related provisions. Over the past year, TTB continued to work with key stakeholders and partners, including CBP, to issue timely guidance to industry so they could meet and comply with their tax obligations.

Over the next several years, through this strategic goal, TTB plans to implement a multi-pronged strategy to improve tax compliance across all taxpayer segments. In FY 2020, TTB will focus on addressing revenue risk among its large taxpayer universe using a combination of targeted enforcement and outreach strategies. As part of these efforts, through FY 2022, TTB strategies will also include improved industry guidance related to tax requirements, which will support voluntary compliance for all TTB taxpayers.

In addition, TTB plans to undertake significant modernization efforts in terms of its tax filing requirements and processes to significantly reduce regulatory burden, increase overall tax compliance, and improve TTB tax administration and oversight. This includes plans to modernize TTB's tax system, which will include developing new external user interfaces as part of an integrated online experience for industry to complete all required business interactions with TTB. In FY 2020, TTB also plans to proceed towards implementing recommendations from a broad-based review of its tax return and operational report filing requirements to lessen burden on industry while improving the information available to TTB for tax administration.

FY 2019 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 2019, TTB continued to use a strategic risk-based enforcement approach, which enables the Bureau 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 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 CBP, 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 2019, 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 2019, TTB made limited progress in its strategic goal to Address Cross-Border Tax Risk, due in part to competing enforcement priorities based on Congressional direction to increase trade practice enforcement beginning in late FY 2017.

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 timely detect imports improperly taking reduced rates or tax credits at the time of entry. In FY 2019, using the import-related data available to TTB through ITDS, TTB also continued to enhance its analytic tools to improve the Bureau's ability to detect and address other forms of tax evasion and criminal activity relating to the importation of alcohol and tobacco products.

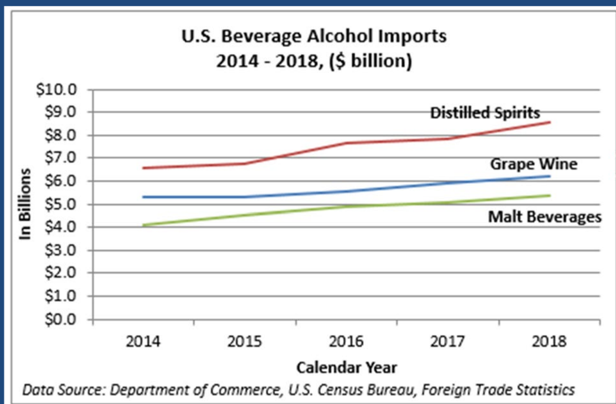
As part of ongoing TTB coordination with CBP to implement the import-related provisions of the tax reform law, both agencies worked cooperatively to publish industry guidance and develop enforcement protocols. Given that CBP is responsible for collecting taxes on imports, TTB also partnered with CBP to help identify critical risk areas, understand both agencies' data and information sharing needs, and generate joint enforcement opportunities going forward.

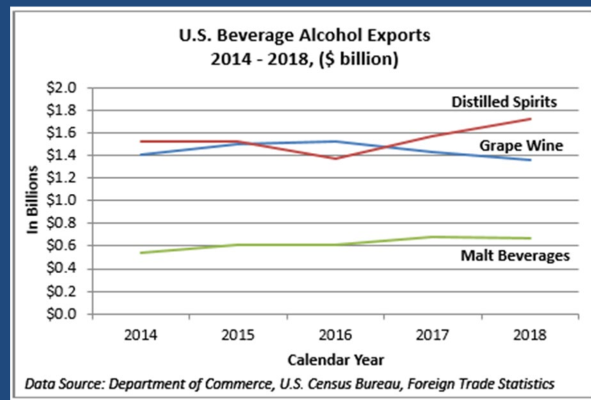
In FY 2020, TTB plans to further improve cooperation and information sharing with CBP and other law enforcement partners. If the craft beverage modernization provisions are extended beyond December 2019, TTB and CBP will continue to work jointly to identify methods to timely detect and address potential issues, with a particular emphasis on maintaining oversight of controlled groups containing both domestic and foreign producers to ensure that the applicable reduced rate and tax credit limitations are not exceeded.

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 addition, in FY 2020, TTB intends to make progress on initiatives to improve the utility of export-related information currently reported to TTB by obtaining it in 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





The value of U.S. import trade in 2018, the most recent full year of data available, increased 7 percent over 2017, reaching a total of $20.1 billion. Wine, distilled spirits, and malt beverages all experienced moderate increases, with distilled spirits showing the most significant year-to-year increase at 9 percent. The five-year trend indicates continued U.S. demand for imported products.

Overseas demand for the products TTB regulates also remains high, with the total value of U.S. exports for all alcohol beverages increasing 2 percent to approximately $3.8 billion in 2018 compared to the prior year. In line with increases in overall export volume, alcohol beverage exports have increased approximately 8 percent since 2014. The majority of these exports are spirits and wine products, although growth has been notable for malt beverages in recent years. Since 2014, the volume of malt beverage exports has increased more than 24 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, issuing export certificates where required, providing technical advice for trade agreements that facilitate trade and suspend trade barriers, and educating industry on U.S. import and export-related requirements. TTB also actively monitors foreign trade measures that have the potential to adversely affect U.S. exports.

VALUE OF U.S. ALCOHOL IMPORTS AND EXPORTS

In FY 2019, TTB supported USTR in multiple negotiating rounds toward continuity agreements on wine and distilled spirits between the United States and the United Kingdom (UK) to ensure there is no disruption in trade of these products if the UK leaves the European Union (EU) and is no longer covered by existing agreements between the United States and the EU. The continuity agreements were signed on January 31, 2019. TTB also provided technical advice to USTR during the negotiation of a side letter agreement with Japan and continued to work with the World Wine Trade Group to advance issues of mutual interest in the international trade in wine.

Further, TTB 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 15 countries in an international wine technical summit to address emerging technical issues and encourage scientific collaboration between TTB, industry scientists, and other wine regulators.

In addition, TTB reviewed more than 50 notifications of proposed, new, and amended technical regulations relating to alcohol beverage products that were submitted to the World Trade Organization by foreign member countries. This notification process is intended to prevent new and illegal non-tariff trade barriers. In conjunction with its interagency partners, TTB provided comments on 27 measures that were determined to be potential barriers to trade for U.S. exporters.

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

TTB must have the technical expertise and leadership skills needed to meet the mission challenges of today and prepare the workforce for tomorrow. In FY 2019, 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 40 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.

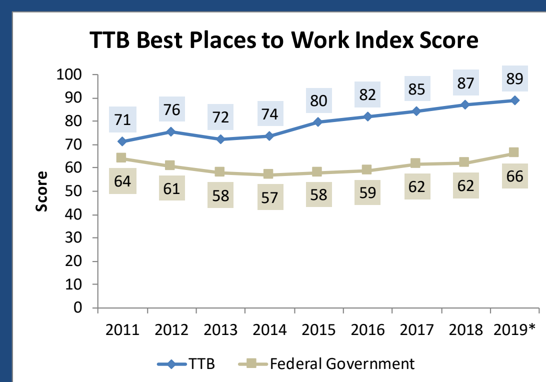
TTB took its direction for this strategic goal directly from employee feedback provided in the annual Employee Viewpoint Survey (EVS). Administered annually by the Office of Personnel Management, the EVS provides important insights into areas for improvement. Based on these scores, TTB has maintained a high ranking in 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.

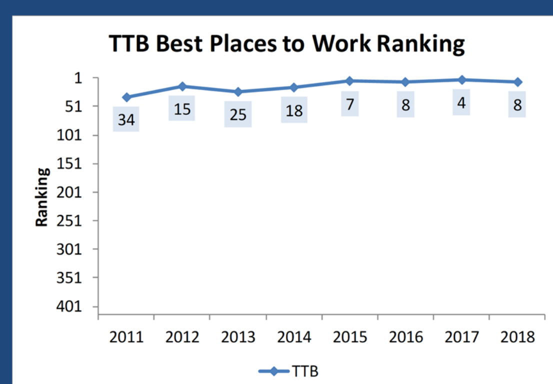
Based on this feedback, in FY 2019, TTB continued to focus on assessing and addressing individual and organizational skill gaps, employing effective strategies to increase awareness of training and development opportunities, and providing quality and effective training to ensure the workforce is prepared 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 2019, 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 2019 results (*) are estimates based on initial FEVS results; final results are available at www.bestplacestowork.org.

GOAL 5 PERFORMANCE HIGHLIGHTS

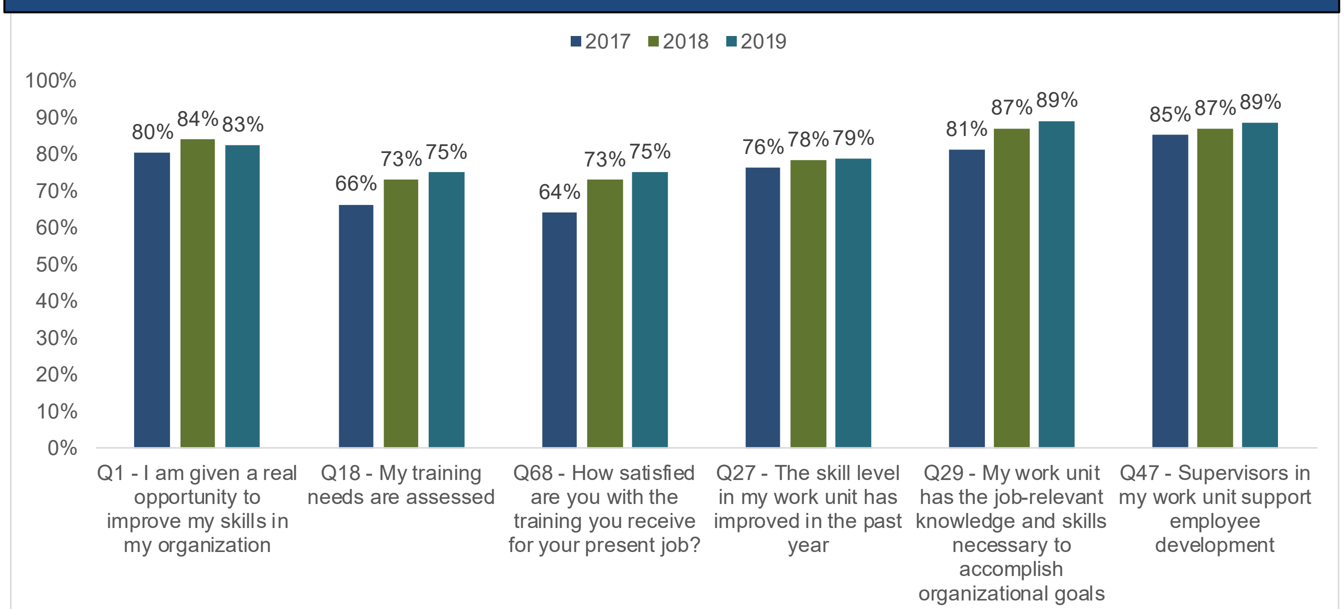
In FY 2019, TTB continued to take a proactive approach to drive progress toward its strategic goal to revitalize its training and development programs, employing a variety of initiatives to encourage and promote professional development, guided by employee feedback on the EVS.

TTB focused on revamping the Bureau's annual training assessment process to provide a crosscutting view of individual and organizational skill gaps. Through these efforts, TTB is now able to develop a comprehensive Bureau-wide training plan that reflects input from employees, supervisors, and senior leaders, which supports the coordination, development, and prioritization of critical training courses. Further, to facilitate effective coaching discussions, TTB conducted webinars for its staff and supervisors on developing individual development plans, or IDPs, to support short- and long-term training needs and career goals.

To date, TTB's initiatives to improve its assessment of training needs have resulted in a marked improvement in EVS scores, with the positive response rate in this survey item increasing 9 percent over three years, from 66 percent in 2017 to 75 percent in 2019. In FY 2020, 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 2020, as part of its workforce planning efforts, TTB will continue to refine its new tools and procedures to perform these assessments across all mission-critical occupations so employees have a better understanding of the skills they must master to reach the next level in their position.

Positive Response Rate on EVS Focus Areas



For those seeking leadership positions, TTB is also reinvigorating its succession planning efforts, and intends to make additional focused progress next year, developing new policies and processes to identify and develop high potential employees. These efforts will be coordinated with Treasury's rollout of the Integrated Talent Management System, incorporating best practices and benchmarks from across government.

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 2019, TTB hiring times averaged more than 140 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 supervisory training, to ensure it is continuously building the capacity of its workforce.

1.5 Financial Highlights

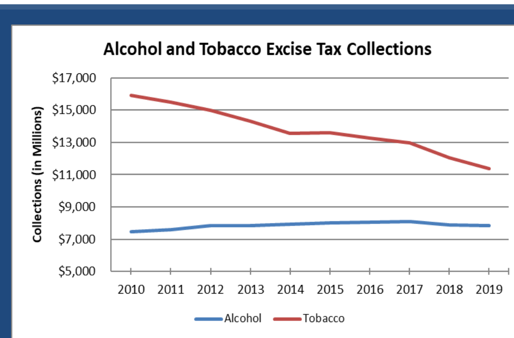
Federal Excise Tax Collections

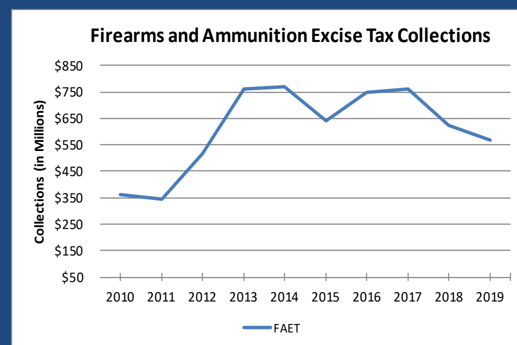
During FY 2019, TTB collected $19.8 billion in taxes, interest, and other revenues from the alcohol, tobacco, firearms, and ammunition industries. The tax for imported alcohol and tobacco products is collected by CBP.

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 40 percent of the excise tax revenue collected by TTB. In FY 2019, TTB collected nearly $7.9 billion in revenue from U.S. wineries, breweries, and distilleries. Alcohol collections are down from 2017 in large part due to the lower tax rates available for 2018 and 2019 as a result of the Tax Cuts and Jobs Act.

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 $360.8 million in FY 2010 to $567.3 million in FY 2019, an increase of $206.5 million over the past decade, or a 57 percent growth in tax revenue. FAET revenue generally aligns to sales volume.





Most 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 2019 Excise Tax Collections:

Alcohol	$	7,865,036,000
Tobacco	$	11,375,038,000
FAET	$	567,330,000
Special Occupational Tax	$	260,000
Floor Stocks Tax	$	5,000
Other	$	5,126,000
Total	**$**	**19,812,795,000**

Refund, Cover-Over, and Drawback Payments

During FY 2019, TTB issued $843.7 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. [5]

During FY 2019, cover-over payments totaled $453.5 million, with $445.3 million paid to Puerto Rico and $8.2 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.

[5] 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 2019, drawback payments totaled $342.4 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 2019 Refund, Cover-Over, and Drawback Payments:

Alcohol, Tobacco & Firearms Excise Tax Refunds	$	47,277,000
Cover-over Payments, Puerto Rico	$	445,324,000
Cover-over Payments, Virgin Islands	$	8,217,000
Drawbacks on MNBP Claims	$	342,433,000
Interest and Other Payments	$	456,000
Total	**$**	**843,707,000**

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, 2019.

- The Balance Sheet shows the assets, liabilities, and net position as of a point in time, in this case, as of September 30, 2019.
  - The total assets were reported as $90.1 million at the close of the fiscal year. Of this amount, $45.8 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 $62.9 million, of which total intragovernmental liabilities amount to $19.4 million. The other liabilities are classified by type, such as accrued tax refunds, payables, and other liabilities.

- The Statement of Net Cost for fiscal year ended September 30, 2019 shows the total net cost of operations at $121.8 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 $52.5 million.
  - The total net cost reported as program costs under the Protect the Public program was $69.3 million.

- The Statement of Change in Net Position for the fiscal year ended September 30, 2019 shows a total net position balance of $27.2 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 for the fiscal year ended September 30, 2019 shows the budgetary resources received and the status of those resources. For TTB, the resources are primarily annual appropriations received in the amount of $119.6 million, in addition to spending authority from collections. The offsetting collections amount was $6.8 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 for the fiscal year ended September 30, 2019 shows the amount of revenue received during FY 2019 compared with FY 2018, 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 $19.8 billion. Within this total, the Bureau processed tax refunds, drawback claims, and cover-over payments in the amount of $ 843.7 million.
  - **Drawback claims** of $342.4 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 $47.3 million.
  - **Cover-over payments** were returned to Puerto Rico and the Virgin Islands in the amount of $453.5 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 $19.4 billion. The vast majority was provided to the U.S. Treasury to fund the federal government, with the exception of the firearms and ammunition federal excise taxes. Those revenues, in the amount of $566.3 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 2019 and 2018, 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 2019 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 2019 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 2019 Bureau Budget

Budget Highlights by Fund Source

This section highlights the TTB program activity in FY 2019 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 2019 Salaries and Expenses		
Fund Source:		
Salaries & Expenses FY 2019 One-Year Appropriation (P.L. 116-6 Consolidated Appropriations Act, 2019) 1/	**$**	**114,600,000**
Obligations Incurred in FY 2019 from Current Year Appropriations	*$*	*114,215,043*
Salaries & Expenses FY 2019/20 Two-Year Appropriation (P.L. 116-6 Consolidated Appropriations Act, 2019) 2/	**$**	**5,000,000**
Obligations Incurred in FY 2019 from Current Year Appropriations	*$*	*648,514*
Salaries & Expenses FY 2018/19 Two-Year Appropriation Carryover (P.L. 115-141 Consolidated Appropriations Act, 2018) 2/	**$**	**4,770,181**
Obligations Incurred in FY 2019 from Prior Year Appropriations	*$*	*4,728,797*
Salaries & Expenses FY 2018/19 (50% Prior Year Recovery) 3/	**$**	**350,000**
Obligations Incurred in FY 2019 from Prior Year Appropriations	*$*	*350,000*
Transfer in From Other Appropriations (TEOAF Strategic Support Fund)	**$**	**600,000**
Obligations Incurred in FY 2019 from Current Year Appropriations	*$*	*596,782*
Reimbursable Authority (Various Customers)	**$**	**6,900,000**
Obligations Incurred in FY 2019 from Current Year Appropriations	*$*	*6,239,273*

1/ The 2019 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.

2/ Both the 2018 and 2019 Consolidated Appropriations Acts included $5 million in two-year direct funding for TTB to enforce trade practice provisions of the FAA Act.

3/ General Provisions of the appropriations bill provide that 50 percent of the unobligated balances remaining available at the end of Fiscal Year 2018 shall remain available through September 30, 2019.

In FY 2019, TTB received $119.6 million in discretionary appropriations under the FY 2019 Consolidated Appropriations Act (Public Law 116-6) and an authorized staffing level of 507 full-time equivalent (FTE) positions. Of this amount, $114.6 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, 2020) to enforce the trade practice provisions of the FAA Act. TTB also carried over $4.8 million in two-year funding from the prior year appropriation (FY 2018/2019) for trade practice enforcement. Additionally, TTB recovered $350 thousand in funding from 50 percent of the prior year (FY 2018) unobligated balances to replace obsolete IT software.

In FY 2019, the Bureau obligated or expended more than 99.7 percent of the $114.6 million of discretionary funding from its one-year Salaries and Expenses appropriation. TTB obligated or expended 99.1 percent of the $4.8 million in two-year Salaries and Expenses funding carried over from the prior year (FY 2018/2019), and 100 percent of the 50 percent recovery of the prior year FY 2018 unobligated balance. The Bureau obligated 13 percent of the $5 million from its FY 2019 two-year Salaries and Expenses appropriation, with the year-end balance of $4.4 million being available for FY 2020 program spending.

Anticipated Collections, Reimbursements, and Other

During FY 2019, TTB had $7.5 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 $6.8 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; and
- Reimbursement from Financial Crimes Enforcement Network (FinCEN) for legal consultation and representation services.

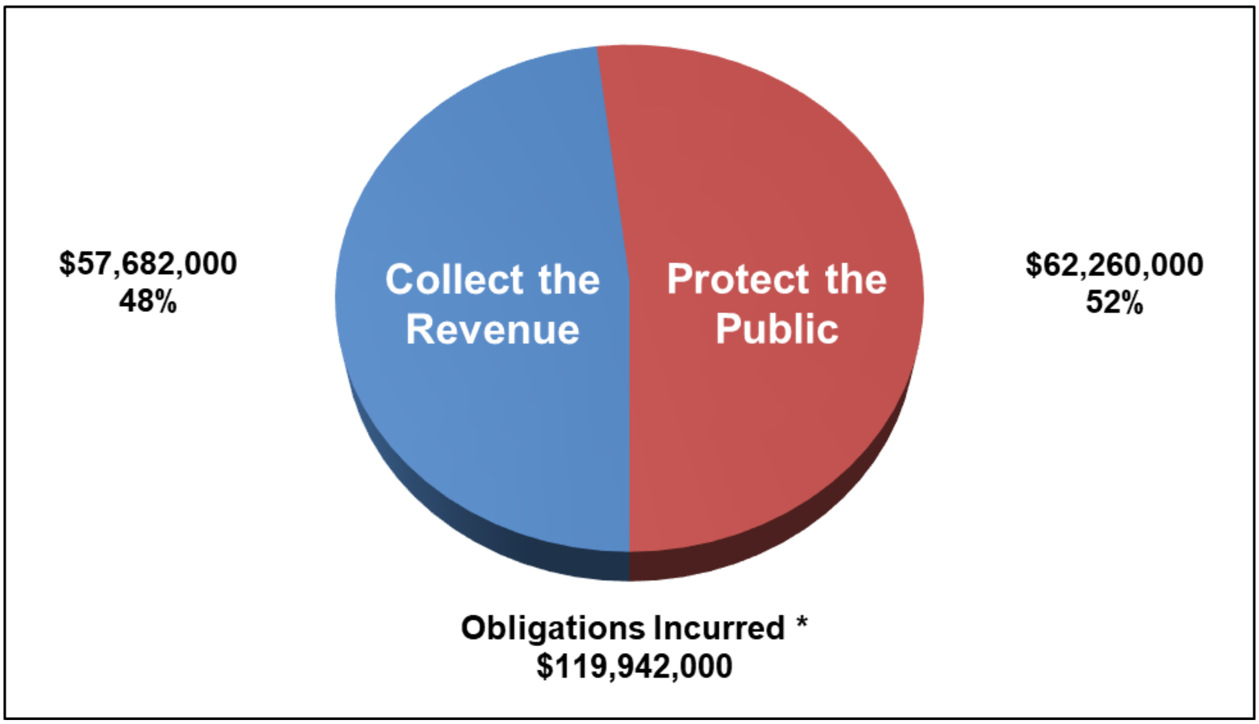
Budget Fiscal Year 2019 Anticipated Collections, Reimbursements, and Other

	Apportioned Authority	Obligations and Expenditures
Puerto Rico Cover Over Operations and Enforcement Activities (Anticipated Collections)	$ 3,350,000	$ 3,336,299
Community Development Financial Institutions Fund (CDFI) (Reimbursable)	$ 2,940,000	$ 2,349,343
Treasury Executive Office for Asset Forfeiture - Mandatory Account (Reimbursable)	$ 600,000	$ 551,462
Financial Crimes Enforcement Network (FINCEN) (Reimbursable)	$ 10,000	$ 2,169
Treasury Executive Office for Asset Forfeiture - Strategic Support Fund (Other/Transfer)	$ 600,000	$ 596,782
Budget Fiscal Year 2019 Totals	**$ 7,500,000**	**$ 6,836,055**

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.

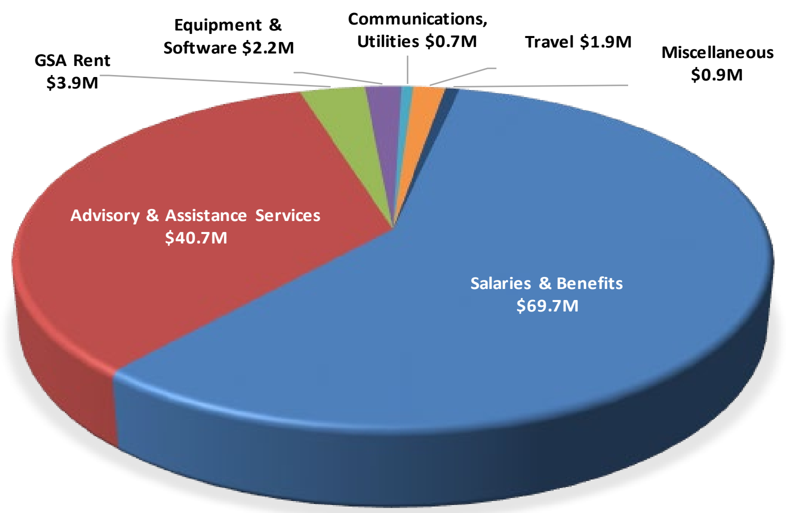
An analysis of the FY 2019 data stemming from the account code structure shows that TTB incurred obligations of $119,942,000 of its salaries and expenses appropriation, of which 48 percent was spent on the Collect the Revenue budget activity and 52 percent was spent on Protect the Public budget activity.



*Amounts include obligations incurred in FY 2019 from the FY 2019 annual appropriation; obligations incurred in FY 2019 from two-year funding (FY 18/19 and FY 19/20); and 50 percent of the prior year FY 2018 recovery.

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

Spending by Major Object Class



Obligations Incurred from FY 2019 Appropriation by Major Object Class, ($ Million)
Total FY 2019 $120 Million*

Amounts include obligations incurred in FY 2019 from the FY 2019 annual appropriation; obligations incurred in FY 2019 from two-year funding (FY 18/19 and FY 19/20); and 50 percent of the prior year FY 2018 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 (92 percent) fall into two principal major object classes: Salaries & Benefits and Advisory & Assistance Services (Contracts).

Salaries & Benefits comprise 58 percent of total obligations incurred by object class, and cover the cost of TTB's roughly 480 onboard positions at the end FY 2019. The Advisory & Assistance Services object class constitutes 34 percent of FY 2019 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.

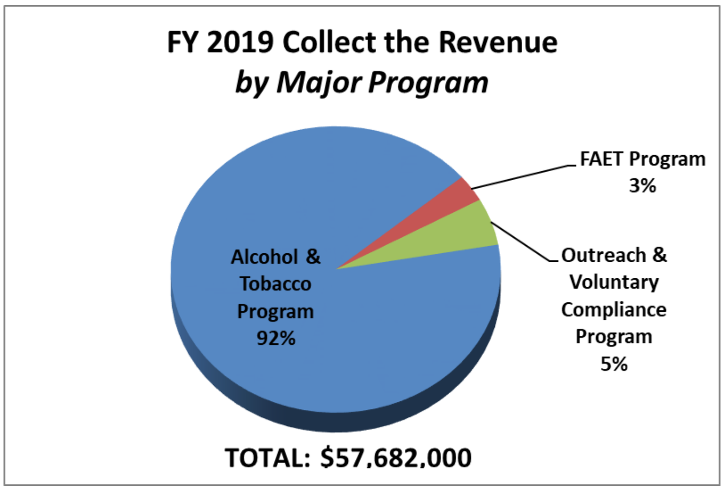
In FY 2019, the Bureau's travel costs were in support of core mission activities for audits and investigations. The remaining object classes that cover the FY 2019 obligations incurred include cost categories for rent, communications, equipment, and other miscellaneous categories.

Obligations Incurred from FY 2019 Appropriations by Budget Activity

Collect the Revenue….. $57,682,000

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.



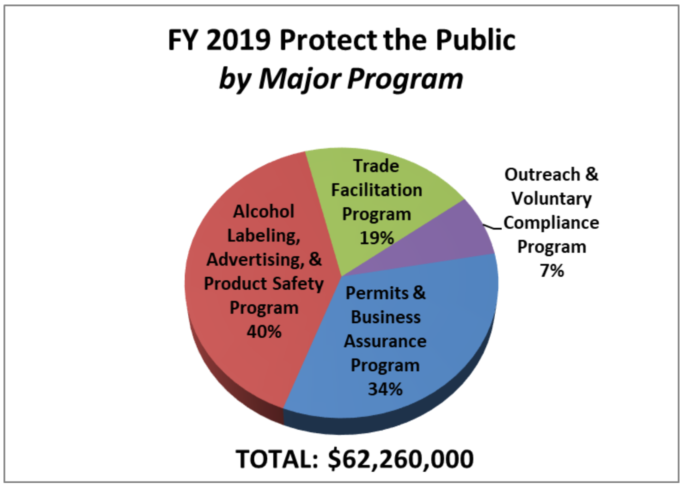
In FY 2019, TTB expended 92 percent of its Collect the Revenue resources in collecting federal excise taxes from the alcohol and tobacco industries and 3 percent in collecting FAET. These costs include activities relating to the processing of tax returns and operational reports at the National Revenue 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 5 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….. $62,260,000

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 2019, TTB expended 74 percent of its Protect the Public resources on two programs: Permits and Business Assurance (34 percent), and Alcohol Labeling, Advertising, and Product Safety (40 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 (19 percent) and the Outreach and Voluntary Compliance Program (7 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 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 2019, 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 2019. 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 2019, 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 2019 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 2019 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 the 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.

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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 2019.

In FY 2019, TTB met or exceeded the performance targets for two of its 14 measures. TTB also monitored its performance through several new or existing indicators that support data-driven decision making across TTB's strategic goals. Despite falling short in many of its annual performance goals in FY 2019, TTB made substantial improvements in many key service and operational measures toward the end of the fiscal year, indicating that the Bureau may 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 2020 targets that reflect workload projections, resource levels, planned business process improvements, and anticipated impacts from technology enhancements.

To meet its performance goals in FY 2020, TTB will implement an aggressive strategic agenda that integrates new technology, policy updates, process improvements, and targeted efforts in both outreach and enforcement. Further, under its updated FY 2018-2022 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 that TTB is actively addressing. Additional data validations are underway and updates will be reported in FY 2020.

FY 2019 Performance Measure Status	
Performance Targets Met	**2**
Performance Targets Not Met	**12**
Total Performance Measures	**14**

2.2 Protect the Public Performance

In FY 2019, TTB met one 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 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 volume of submissions, particularly in the more complex application types related to producing alcohol beverage products, has caused approval times to increase. 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. TTB started to reduce approval times in FY 2017 and, to build on these performance improvements, TTB and Treasury established a two-year Agency Priority Goal (APG) for FY 2018 – 2019 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.

TTB met one of its two APG targets by the end of FY 2019, reducing average approval times by 20 percent from 96 days in FY 2017 to 75 days in FY 2019. However, TTB fell short of its second target to achieve the 75-day service standard for 85 percent of permit applicants. During the 35-day partial government shutdown, with industry continuing to file for federal permit approval, the backlog of pending applications continued to increase and age. As a result, for FY 2019, TTB issued 58 percent of permit applications within its 75-day service standard.

Through focused recovery efforts, TTB made significant progress in the second half of the fiscal year in reducing the backlog of pending applications, from a high of nearly 3,000 applications in February 2019 to approximately 1,500 at year-end. These improvements brought down original application processing times for alcohol manufacturers from post-shutdown peaks of over 100 days, with TTB achieving an average of 84 days for FY 2019 for wineries, breweries, and distilleries. TTB ended the fiscal year with 68 percent of applications issued within 75 days in September 2019, which positions TTB to achieve this priority goal target in FY 2020.

Achieving and sustaining these performance improvements in FY 2020 and beyond remains a challenge. With priority attention placed on reducing backlogs, TTB had to delay many of its crosscutting initiatives to update its permitting business processes. These initiatives will continue into next year and, in FY 2020, TTB will focus on achieving its performance target through Permits Online system enhancements and continued process improvements. These include implementing new permit application dashboards that display key metrics on the status and age of pending applications to support effective management of the backlog.

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 maintain timely service by increasing the number of first-time permit application approvals. Errors increase the overall workload volume, requiring extensive back-and-forth with applicants to ensure the application is complete and verified, which adds to the total processing time.

Over the last five years, TTB's ability to meet its service standard for new permit applications has been challenged by high error rates, which have persistently remained around 80 percent. Error rates are much higher for prospective breweries, wineries, and distilleries, which have more complex applications compared to non-manufacturers (i.e., wholesalers and importers). With the release of the redesigned Permits Online system and publication of extensive online guidance in FY 2018, as well as the permit application changes implemented to date, TTB was able to bend the curve on the high volume of applications submitted with errors. For FY 2019, the error rate on permit applications decreased to 71 percent, with improvements achieved across most application types.

Further, to improve both error rates and approval times, TTB continued to work with experts in Treasury to implement recommendations from a Lean Six Sigma review of its process for returning permit applications for corrections. In FY 2019, TTB piloted new tools and procedures to streamline the application return process and standardize internal procedures. In FY 2020, to continue making progress toward its target of 25 percent, TTB will finalize implementation of 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 89 percent of permit applications via Permits Online in FY 2019. TTB attributes the year-to-year increase to TTB.gov improvements following the July 2018 release of the redesigned Permits Online system, which included improved guidance for first-time filers to help them navigate the application process. These system changes, combined with the extensive outreach and online training for industry provided with the release, will support TTB in achieving its FY 2020 targets of increasing the electronic filing rate to 90 percent and reducing the initial error rate on permit applications to 25 percent.

In alignment with its strategy to optimize its electronic filing systems, TTB measures *Customer Satisfaction with the Permits Online eGov System* through an e-mail survey to assess how satisfied businesses are in applying for a permit or registration through Permits Online. In FY 2019, system satisfaction rates decreased 9 percent, from 77 percent in FY 2018 to 68 percent in FY 2019. Notably, satisfaction rebounded significantly in Q4 FY

2019 to 73 percent, which correlates with improved permit approval times later in the year. Although still below the annual target of 80 percent, TTB expects the positive trend to continue in line with overall improvements in service levels, and as TTB initiates broader system modernization efforts in FY 2020 to provide applicants with a single integrated online filing experience. TTB will also focus on improving 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, some of which will require rulemaking, are underway and may need to be fully implemented before TTB can achieve and sustain its targeted performance levels. These actions are being 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 FY 2019, TTB continued to make progress towards modernizing its permit applications. Using a multi-disciplinary team, TTB has reviewed its permit requirements and developed recommendations to modernize and streamline the applications based on TTB's statutory responsibilities and enforcement needs. In FY 2019, TTB continued to implement application changes to reduce filing burden and, to date, has significantly shortened the Personnel Questionnaire and eliminated a number of application questions and required supporting documentation for many permit types.

These efforts will carry forward into FY 2020, with ongoing evaluation of options to simplify the federal permitting and registration process by reducing open text fields and requirements to upload supporting documentation, including those that can be implemented in advance of rulemaking. TTB intends to propose rulemaking in FY 2020 for more significant modifications to the permit application process, with the aim of significant burden reductions both for industry and TTB. 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 that only qualified persons engage in the alcohol, tobacco, firearms, and ammunition industries. This includes performing investigations into high-risk applicants. In FY 2019, TTB continued to update its procedures to screen permit applicants, refining the risk criteria, tools, and procedures used to vet applicants for suitability to hold a federal permit. In FY 2020, TTB will continue to 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 2015	FY 2016	FY 2017	FY 2018	FY 2019		FY 2020	Result vs Target
		Actual	Actual	Actual	Actual	Actual	Target	Target	
Percentage of Permit Applications Processed within Service Standards (75 days)	SO 7	47%	32%	48%	71%	**58%**	85%	85%	Unmet
Initial Error Rate for Permit Applications 1/	SO 2	77%	81%	83%	80%	**71%**	25%	25%	Unmet
Percent of Electronically Filed Permit Applications 2/	SO 15	85%	81%	85%	87%	**89%**	87%	90%	Met
Customer Satisfaction Rate with TTB Permitting Process 3/	SO 15	76%	71%	80%	83%	**DISC**	DISC	DISC	N/A
Customer Satisfaction Rate with eGov Systems - Permits Online	SO 15	64%	54%	68%	77%	**68%**	80%	80%	Unmet

Key: DISC - Discontinued and BASE - Baseline

1/ Estimated result for FY2019 based on data quality issue in Q4 based on incorrect application of 'corrections' status on certain permit applications; actual result likely lower than reported

2/ Revised actuals for prior years due to data quality review and cleanup of data source

3/ Discontinued in FY 2018 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 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 resubmissions 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 2019, TTB received nearly 199,000 label applications and well over 20,000 formula applications, which reflects the ongoing expansion and product innovation within 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 late in FY 2017 continued through FY 2019. As of year-end, with labels up another 2 percent and formulas up another 15 percent compared to FY 2018, submission volume has increased nearly 20 percent for labels and nearly 40 percent for formulas in the last two years. Innovation in the craft beer and spirits sectors continues to drive growth in label applications, with an increase of approximately 10 percent for malt beverage and distilled spirits applications in FY 2019. Although all alcohol beverage commodities contributed to the increase in formula submissions, wine and malt beverage submissions increased at the fastest rate, up roughly 35 percent compared to last year, based on the use of innovative ingredients and market trends toward flavored products including cider, mead, and malt beverages.

In light of customer expectations, as well as planned process improvements supported by funding enacted in the FY 2019 budget directed toward accelerating approval times, TTB maintained its service standards for beverage alcohol labels and formulas at 15 days in FY 2019. Despite increased submission volume, the formulation area rebounded quickly from the government shutdown to reach targeted performance levels, and ended the year at 84 percent of formula applications meeting the 15-day standard, nearly meeting the target of 85 percent. 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 short of target in FY 2019. While TTB began the fiscal year with 85 percent of label applications meeting the 15-day service standard, results in subsequent quarters fell well below target and trended negatively quarter-to-quarter, with just 45 percent meeting the 15-day service standard as of year-end. Staffing turnover in labeling specialists coupled with the year-over-year increase in application submissions contributed to the challenges in recovering from the government shutdown. TTB expects results to trend positively in FY 2020 as backlogs are cleared through continuous queue management and strategic resource alignment.

As a result, TTB expects to maintain its 15-day service standard for label and formula applications in the coming year, and will work toward its FY 2020 target of meeting this standard for 85 percent of applications through strategic initiatives to upgrade 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 temporarily reduced the volume of label and formula submissions; however, in FY 2019, industry growth combined with market trends toward products that require an approved formula prior to production have resulted in increased submissions that 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, TTB continued its initiative to modernize federal alcohol beverage labeling regulations to reflect current TTB policy and modern industry practices. In FY 2019, TTB published a notice of proposed rulemaking intended to consolidate, clarify, and simplify labeling requirements, which received approximately 1,200 industry comments. Through this rulemaking, TTB is seeking to provide additional guidance to industry that, combined with proposed burden-reducing measures, should contribute to more complete and accurate label and formula applications. TTB anticipates proceeding with final rulemaking in FY 2020 to codify certain proposals that are liberalizing and received broad industry consensus.

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 2019, approximately 37 percent of label and formula applications were submitted incomplete or with errors, falling short of the targeted performance level of 25 percent, although demonstrating year-to-year progress.

In FY 2019, TTB continued to use a data-driven strategy to address frequent application errors, with the goal of increasing the number of applications that do not need to be returned for correction. This year, TTB implemented a new "conditionally approved" status, enabling industry to accept minor technical changes to an application without requiring a resubmission. Going forward, TTB intends to reduce error rates by expanding and improving system-based validations and online guidance features. These include detailed examples of compliant label and formula submissions by commodity, as well as web-based tools to make it easier for industry members to determine 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, which 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. Over the last several years, TTB has 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. These system releases have targeted both application and label compliance errors and, in FY 2019, results indicate that the changes implemented to date have proven effective, with error rates dropping below 40 percent, and down 7 percent for formulas and 6 percent for labels since Q1 FY 2018.

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 99 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 2020, 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 2019 appear to have had limited influence on user satisfaction with TTB's electronic filing systems. Through its new measures 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 2019, satisfaction rates decreased significantly, from 81 percent to 77 percent for COLAs Online users and 79 percent to 70 percent for Formulas Online users. TTB attributes these declines to industry dissatisfaction with increased processing times and other service challenges following the partial government shutdown, and anticipates that performance will improve through FY 2020 in line with service improvements. Further, TTB expects that planned system improvements and regular review of survey feedback in FY 2020 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 2019 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 2020, 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, priorities, and guidance, 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 2015	FY 2016	FY 2017	FY 2018	FY 2019		FY 2020	Result vs Target
		Actual	Actual	Actual	Actual	Actual	Target	Target	
Percentage of Alcohol Beverage Label and Formula Applications Processed within Service Standards 4/	SO 1	80%	80%	62%	84%	**48%**	85%	85%	Unmet
Initial Error Rate for Label and Formula Applications	SO 2	42%	44%	43%	40%	**37%**	25%	25%	Unmet
Percent of Electronically Filed Label and Formula Applications	SO 15	94%	97%	98%	98%	**99%**	95%	95%	Exceeded
Customer Satisfaction Rate with eGov Systems - COLAs Online	SO 15	71%	74%	82%	81%	**77%**	80%	80%	Unmet
Customer Satisfaction Rate with eGov Systems - Formulas Online 5/	SO 15	48%	58%	70%	79%	**70%**	80%	80%	Unmet

Key: DISC - Discontinued and BASE - Baseline

4/ Service standards are set annually based on TTB analysis of submission volume, error rates, and resource levels. For FY 2018, 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.

5/ Revised actual for FY 2018 due to error in calculation; results represent beverage alcohol formula filers only (nonbeverage alcohol formula filers are excluded)

2.3 Collect the Revenue Performance

In FY 2019, 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 remained below target in FY 2019. 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 required tax returns and payments on or before the scheduled due date. In FY 2019, TTB revised its method for this metric and added a new measure of the *Percent of Voluntary Compliance from Large Taxpayers in Filing Operational Reports Timely*. With this update, TTB shifted from a limited view of compliance by late filings to a more comprehensive picture of compliance by taxpayer across six factors (late/missing returns; late/missing reports; late payments; underpayments), which enables the Bureau to detect and pursue more serious non-compliance patterns.

In FY 2019, TTB achieved a compliance rate of 69 percent from its large taxpayers in filing required tax returns and payments, and a compliance rate of 76 percent from its large taxpayers in filing required operational reports, which fell below the performance target of 95 percent. Results for FY 2019 are estimated, representing actual values through Q3 FY 2019, based on data latency issues due to the high volume of paper filings. Although TTB analysis indicates that this trend does not represent a significant revenue risk, as late filings represent the majority of the compliance violations, 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 illicit trade practice activity in the alcohol industry, with directed funding for this purpose enacted in TTB's budgets in FY 2017 – FY 2019.

In FY 2020, 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 managing daily workloads, which continue to increase in line with industry expansion. Plans over the next year include refining TTB's procedures for risk-based reviews of taxpayer accounts, which will include updates to internal business rules and processes, supported by new analytics tools, to address identified non-compliance. Over the next several years, TTB also plans to improve its education and outreach strategies to drive compliant behavior across TTB taxpayers, including publishing new online guidance.

Enhance External Communication & Outreach

TTB continued to face challenges in FY 2019 in making progress toward its tax compliance goal based on new requirements signed into law under the Tax Cuts and Jobs Act (Public Law 115-97). 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.

In FY 2019, to facilitate the alcohol industry's understanding of and compliance with the new law, TTB continued to update a dedicated section on TTB.gov to provide Frequently Asked Questions (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 FY 2020, to support industry compliance, TTB will actively manage its online guidance to provide current information on rules and requirements in response to any Congressional action to extend the craft beverage modernization provisions beyond December 2019.

Improve Policies, Processes, & Documentation

The *Amount of Revenue Collected per Program Dollar* indicator 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 2019, TTB achieved a return on investment of $339 for every program dollar spent on collection activities. The year-to-year decline represents continued decreases 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, currently in effect through December 31, 2019. In total, revenue collections are down 4 percent from FY 2018; however, 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, based on historical trends and other external factors, TTB expects that the negative trend will likely continue into FY 2020.

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 operational 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 operational reports remain well below target, especially compared to other TTB e-filing systems. These low rates – which ended the year at 41 percent of tax returns and 46 percent of 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, although more significant tax system modernization is likely required for TTB to reach its target.

Going forward, and informed by ongoing process improvement efforts, TTB intends to implement phased releases to its tax system, including developing a custom 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. In FY 2019, TTB deployed system releases to increase automation and address inefficiencies related to posting paper tax filings and amended tax returns, which are time-intensive, manual processes. Combined, these releases 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.

Effective implementation of the TTB tax provisions also requires modernized systems and a data-driven approach to monitor compliance and timely identify potential tax evasion, which are even more critical in light of recent tax reforms. At present, resource-intensive manual analysis and reconciliation of multiple reports and returns, in combination with other data sources, by specialists, auditors, and investigators are required to detect and address high-risk activity. In the years ahead, 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 import and export data, to more effectively target its limited resources to known evasion schemes.

Update Regulatory Requirements

In FY 2019, to improve TTB's current tax administration processes, and to ensure that the resources dedicated to tax administration are commensurate with revenue risk, TTB initiated a broad-based review of its tax return and operational report filing requirements. The review generated 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 also incorporated changes to TTB requirements to address new risks to underreporting caused by recent tax reforms, which may be necessary if these provisions are extended beyond December 31, 2019.

This multi-year initiative, which TTB will continue in FY 2020, will require form and regulatory updates. As TTB initiates implementation, the Bureau believes it can update its requirements on an incremental basis and 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.

GOAL 3 KEY SUCCESS INDICATORS

Measure/Indicator	Strategic Objective Alignment	FY 2015 Actual	FY 2016 Actual	FY 2017 Actual	FY 2018 Actual	FY 2019 Actual	FY 2019 Target	FY 2020 Target	Result vs Target
Amount of Revenue Collected Per Program Dollar	SO 5	$ 437	$ 414	$ 406	$ 369	**$ 339**	$ 400	N/A	N/A
Percent of Voluntary Compliance from Large Taxpayers in Filing Tax Returns/Payments Timely (by filing) 5/	SO 2	88%	87%	85%	85%	**DISC**	90%	DISC	N/A
Percent of Voluntary Compliance from Large Taxpayers in Filing Tax Returns/Payments Timely (by taxpayer) 5/	SO 2	-	-	60%	69%	**69%**	95%	95%	Unmet
Percent of Voluntary Compliance from Large Taxpayers in Filing Operational Reports Timely (by taxpayer) 5/	SO 2	-	-	66%	74%	**76%**	95%	95%	Unmet
Percent of Electronically Filed Tax Returns - Pay.gov 6/	SO 15	33%	33%	35%	37%	**41%**	50%	50%	Unmet
Percent of Electronically Filed Operational Reports - Pay.gov	SO 15	38%	39%	40%	42%	**46%**	50%	50%	Unmet

5/ TTB developed 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 also formally added a measure of the compliance rate for operational reports.

6/ Minor adjustments to prior year data based on data quality review

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 become available in recent years 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 2019 on imported alcohol and tobacco products. In FY 2019, 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. In FY 2019, TTB finalized 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 offer new insights to support enhanced enforcement planning in future years.

In FY 2020, TTB will continue its efforts 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 2019, 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 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, including ongoing focus on 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. As TTB undertakes its overarching initiative to simplify tax filing requirements, improving the form and format for industry to report export-related information will remain a primary area of focus.

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 2019, TTB continued to coordinate with CBP to support implementation of the import-related provisions of the tax reform legislation, which included 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 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. In the case of controlled groups comprised of both domestic and foreign producers, TTB and CBP are identifying information sharing and enforcement protocols to ensure that an entire controlled group does not exceed the quantity limitations for taking a reduced rate or tax credit under the law, if these provisions are extended beyond December 31, 2019. 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 the craft beverage modernization provisions due to the availability of reduced tax rates and credits for imports.

TTB's criminal cases reflect the risk posed by the cross-border trade in these products. TTB continues to monitor 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 2019, TTB successfully resolved 11 of 18 criminal cases, or 61 percent, including several related to tobacco products illicitly trafficked in interstate commerce. Based on several factors, including the shutdown and the mix of cases resolved in FY 2019, TTB collections for its civil and criminal diversion cases were down to roughly $300,000; however, TTB expects to close several open cases in FY 2020 with significant potential federal excise tax liabilities.

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 2019, TTB initiated eight National Response Team investigations, including several related to high-risk activity by tobacco importers.

Both the number and type of National Response Team investigations shifted in FY 2019 in response to shifting enforcement priorities and resource constraints. Given the complexity and scale of trade practice investigations, TTB employed this 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 2020 to maintain its enforcement presence across TTB's key risk areas.

GOAL 4 KEY SUCCESS INDICATORS

Measure/Indicator	Strategic Objective Alignment	FY 2015 Actual	FY 2016 Actual	FY 2017 Actual	FY 2018 Actual	FY 2019 Actual	FY 2019 Target	FY 2020 Target	Result vs Target
Number of National Response Team Investigations	SO 12	10	10	12	8	**8**	N/A	N/A	N/A
Percent of Criminal Cases Resolved with Successful Outcomes	SO 4	85%	72%	87%	88%	**61%**	N/A	N/A	N/A
Percent of Revenue Cases Initiated through Analytics	SO 11				BASE	**22%**	N/A	N/A	N/A
Success Rate of Closed Revenue Cases Initiated through Analytics	SO 11				BASE	**58%**	N/A	N/A	N/A

Goal 5: Training Revitalization

Effective and efficient administration of the Bureau's mission 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 the other four strategic goals with a 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 anticipated upcoming retirement wave by strategically employing a variety of human capital policies and programs, with specific emphasis on enhancing the technical knowledge and leadership skills of its workforce. In FY 2019, 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

2019 EVS results indicate continued improvement in the positive response rate on these training-related questions, with the combined score increasing from 80 percent in FY 2018 to 82 percent in FY 2019. These results reflect a modification to the measurement methodology in FY 2019, with three additional training-related survey items added to the calculation to present a more complete picture of desired program outcomes. Since 2015, the positive response rates have increased roughly 5 – 10 percent across the six 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; 3) Satisfaction with the training received for present job; 4) The skill level in my work unit has improved in the past year; 5) My work unit has the job-relevant knowledge and skills necessary to accomplish organizational goals; and 6) Supervisors in my work unit support employee development.

Year-to-year, TTB continued to demonstrate positive trends in satisfaction with the two priority areas targeted for improvement in FY 2019. Specifically, positive response rates increased 2 percent since 2018 for questions related to the training employees receive for their present job and whether an employee's training needs were adequately assessed. In support of the strategic goal, and in response to feedback from employees and supervisors, TTB divisions have prioritized technical job skills training for FY 2020, 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 intended to ensure that employees' training needs are fully and timely assessed and addressed. TTB implemented new procedures for conducting an annual Bureau-wide training needs assessment, which will be used in FY 2020 to develop an annual TTB training plan. This process ensures that priority training needs are identified and fulfilled, and should result in efficiencies as TTB better leverages training opportunities available across the Bureau and Treasury.

In FY 2019, 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 2019 as well as one-on-one counseling opportunities to provide guidance and resources to support ongoing discussions about critical skills and development opportunities. In the year ahead, as new features of the Integrated Talent Management System are rolled out across Treasury, TTB will seek to increase its capability to develop effective IDPs aligned to critical job elements and mine data from the plans to support the Bureau's annual training needs assessment.

TTB also made significant progress this year on its initiative to develop career ladder assessments, continuing to test and refine its 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 2020, TTB will continue its efforts to make incremental progress across its mission-critical positions over the next several years.

Finally, to develop its next generation of leaders, TTB continued to develop its succession planning framework, including through implementing 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 2019, TTB engaged participants in experiential learning opportunities in the form of a collaborative, cross-organizational "capstone" projects that require participants to put classroom skills into effect and broaden their exposure to other areas of the Bureau's operations. In addition, TTB researched and benchmarked options to leverage existing federal certification and candidate development programs to ensure a leadership pipeline. In FY 2020, TTB will continue to develop policies and programs to develop high potential employees for leadership positions, in coordination with the rollout of Treasury's Integrated Talent Management System.

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, maintaining its highest positive response rate of 89 percent in FY 2019, based on initial results. For FY 2018, TTB ranked 8th out of 415 sub-component agencies in the Best Places to Work in Federal Government; FY 2019 rankings are pending release.

TTB's Employee Engagement Action Plan for FY 2019 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, continued to improve the experience of new hires through ongoing enhancements to its onboarding program. Further, in the area of communications, TTB completed its initiative to improve the tools and techniques used to publish and promote training opportunities, maintaining an online resource to capture and share information on TTB training offerings. Moving forward, TTB will consider options for leveraging online training courses provided in the Integrated Talent Management System and building an online catalog of training materials in specialized program areas.

Even with the progress achieved in FY 2019, TTB intends to remain focused on training and strategic workforce management in FY 2020 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, tracking employee responses to its communication strategies to ensure that the workforce is aware of course offerings. Other anticipated areas of focus based on FY 2019 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 continue to provide supervisory training to support TTB hiring managers.

GOAL 5 KEY SUCCESS INDICATORS

Measure/Indicator	Strategic Objective Alignment	FY 2015 Actual	FY 2016 Actual	FY 2017 Actual	FY 2018 Actual	FY 2019 Actual	FY 2019 Target	FY 2020 Target	Result vs Target
Best Places to Work Engagement Index Score 7/	SO 14	80	82	85	87	**89**	N/A	N/A	N/A
Positive Response Rate on Training Items in Federal Employee Viewpoint Survey 8/	SO 13	73	75	76	80	**82**	85	85	Met

7/ 2018 data revised based on final results; 2019 data estimated based on initial results; final data on www.bestplacestowork.org

8/ Revised methodology in FY 2019 to include three additional FEVS questions related to training; prior year data updated to reflect new method for trend analysis purposes

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

3.1 Message from the Chief Financial Officer

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 2019, for the tenth 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.

In FY 2019, we experienced the longest partial government shutdown in the history of the United States. This shutdown offered us a reminder of the important role that TTB plays in the lives of citizens and businesses, and the fundamental value of government's role in the marketplace. TTB fully understood the importance of these services and the impact of TTB-regulated industries on the economy. When the government reopened, our employees were confronted with many challenges, and we came together to strategize on recovery efforts. We used our enterprise risk management framework to modify our business plan, recognizing that we would need to stay focused on critical workload backlogs in business permitting and alcohol beverage product labeling to mitigate the impact on industry members.

As we move forward, we recognize that accomplishing our goals requires that we prepare our workforce to meet current and future mission challenges. With a substantial portion of the TTB workforce eligible to retire in the next five years, and guided by employee feedback from the Federal Employees Viewpoint Survey (FEVS), 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 FEVS scores, which rank us in the top 2% 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. Furthermore, we are emphasizing workforce planning to ensure that the organization has the right number of personnel with the right types of skills to meet the organization's needs today and in the future.

As we always have, we will face any challenges or uncertainty by 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' Reports, Financial Statements, and Accompanying Notes

KPMG

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

Independent Auditors' Report

Acting Inspector General
Department of the Treasury

Acting 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, 2019 and 2018, 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. 19-03, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 19-03 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.

KPMG

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, 2019 and 2018, 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

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, 2019, 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 as of and for the year ended September 30, 2019 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. 19-03.

We also performed tests of its compliance with certain provisions referred to in Section 803(a) of the *Federal Financial Management Improvement Act of 1996* (FFMIA). Providing an opinion on compliance with FFMIA was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances in which the Alcohol and Tobacco Tax and Trade Bureau's financial management systems did not substantially comply with the (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level.

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 13, 2019

ALCOHOL AND TOBACCO TAX AND TRADE BUREAU
BALANCE SHEETS
As of September 30, 2019 and 2018
(In Thousands)

	2019	2018
ASSETS		
Intragovernmental Assets:		
Fund Balance with Treasury (Note 2)	$ 45,801	$ 40,535
Accounts Receivable (Note 3)	947	1,345
Due from the General Fund (Notes 5 and 8)	16,378	19,428
Total Intragovernmental Assets	63,126	61,308
Accounts Receivable (Note 3)	552	512
Tax and Trade Receivables, Net (Notes 4 and 8)	17,378	23,305
Property, Plant and Equipment, Net (Note 6)	8,902	9,422
Advances (Note 7)	160	180
TOTAL ASSETS (Note 8)	$ 90,118	$ 94,727
LIABILITIES		
Intragovernmental Liabilities:		
Accounts Payable	$ 1,327	$ 1,504
Payroll Benefits	642	566
FECA Liabilities	14	8
Due to the General Fund (Notes 4 and 5)	11,500	17,366
Due to the Wildlife Restoration Fund (Notes 4 and 5)	5,878	5,939
Total Intragovernmental Liabilities	19,361	25,383
Accounts Payable	4,793	3,425
Payroll Benefits	2,352	2,069
FECA Actuarial Liability	59	78
Refunds Payable	16,378	19,428
Unfunded Leave	5,092	4,821
Cash Bond Liabilities	13,460	13,809
Other Liabilities (Note 9)	1,440	1,251
TOTAL LIABILITIES	62,935	70,264
Commitments and Contingencies (Note 19)		
NET POSITION		
Unexpended Appropriations - Other Funds	22,875	18,946
Cumulative Results of Operations - Other Funds	4,308	5,517
TOTAL NET POSITION - OTHER FUNDS	27,183	24,463
TOTAL LIABILITIES AND NET POSITION	$ 90,118	$ 94,727

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, 2019 and 2018
(In Thousands)

	2019	2018
COLLECT THE REVENUE		
Program Costs		
Gross Costs	$ 57,404	$ 56,381
Less: Earned Revenue	(4,887)	(4,858)
Total Net Program Cost	52,517	51,523
PROTECT THE PUBLIC		
Program Costs		
Gross Costs	70,730	66,670
Less: Earned Revenue	(1,441)	(1,177)
Total Net Program Cost	69,289	65,493
NET COST OF OPERATIONS (Note 13)	$121,806	$117,016

The accompanying notes are an integral part of these statements.

ALCOHOL AND TOBACCO TAX AND TRADE BUREAU
STATEMENTS OF CHANGES IN NET POSITION
For the Years Ended September 30, 2019 and 2018
(In Thousands)

	2019	2018
UNEXPENDED APPROPRIATIONS		
Beginning Balances	$ 18,946	$ 20,374
Budgetary Financing Sources		
Appropriations Received	119,600	111,439
Other Adjustments	(417)	(650)
Appropriations Used	(115,254)	(112,217)
Total Budgetary Financing Sources	3,929	(1,428)
Total Unexpended Appropriations	22,875	18,946
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances	5,517	4,996
Budgetary Financing Sources		
Appropriations Used	115,254	112,217
Transfers-in without reimbursement	600	982
Other Financing Sources (Non-exchange)		
Imputed Financing from Costs Absorbed by Others (Note 12)	4,744	4,340
Transfers of the General Fund and Other	(1)	(2)
Total Financing Sources	120,597	117,537
Net Cost of Operations (Note 13)	(121,806)	(117,016)
Net Change	(1,209)	521
Cumulative Results of Operations	4,308	5,517
TOTAL NET POSITION	$ 27,183	$ 24,463

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, 2019 and 2018
(In Thousands)

	2019	2018
BUDGETARY RESOURCES (Note 14)		
Unobligated Balance from Prior Year Budget Authority, Net	$ 8,120	$ 7,112
Appropriations (discretionary and mandatory)	119,600	111,439
Spending Authority from Offsetting Collections (discretionary and mandatory)	6,788	7,241
TOTAL BUDGETARY RESOURCES	$ 134,508	$ 125,792
STATUS OF BUDGETARY RESOURCES		
New Obligations and Upward Adjustments (Note 15)	$ 127,858	$ 118,722
Unobligated Balance, End of Year:		
Apportioned, Unexpired Accounts	4,781	5,430
Unapportioned, Unexpired Accounts	-	4
Unexpired Unobligated Balance, End of Year	4,781	5,434
Expired Unobligated Balance, End of Year	1,869	1,636
Unobligated Balance, End of Year	6,650	7,070
TOTAL STATUS OF BUDGETARY RESOURCES	$ 134,508	$ 125,792
AGENCY OUTLAYS, NET		
Outlays, Gross (discretionary and mandatory)	$ 121,263	$ 118,333
Actual Offsetting Collections (discretionary and mandatory)	(7,490)	(6,166)
Outlays, Net (discretionary and mandatory)	113,773	112,167
Distributed Offsetting Receipts	(1)	(9)
AGENCY OUTLAYS, NET (discretionary and mandatory)	$ 113,772	$ 112,158

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, 2019 and 2018
(In Thousands)

	2019	2018
SOURCES OF CUSTODIAL REVENUE		
Revenue Received		
Excise Taxes (Note 16)	$ 19,809,202	$ 20,548,478
Interest, Fines and Penalties	3,593	5,099
Other Custodial Revenue	-	8
Total Revenue Received (Note 17)	19,812,795	20,553,585
Less Refunds and Drawbacks (Note 16)	(390,166)	(319,410)
Net Revenue Received	19,422,629	20,234,175
Accrual Adjustment	(2,876)	(7,698)
Total Sources of Custodial Revenue	19,419,753	20,226,477
DISPOSITION OF CUSTODIAL REVENUE		
Amounts Provided to:		
General Fund	18,402,843	19,154,672
Wildlife Restoration Fund	566,245	624,769
Amounts Provided to Fund the Federal Government (Note 17)	18,969,088	19,779,441
Amounts Provided to Non-Federal Entities (Note 16)	453,541	454,734
Increase/(Decrease) in Amounts Yet to be Provided:		
General Fund	(5,866)	1,512
Wildlife Restoration Fund	(61)	(2,166)
(Increase)/Decrease in Accrued Refunds	3,051	(7,044)
Total Disposition of Custodial Revenue	19,419,753	20,226,477
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. These standards allow certain presentations and disclosure to be modified, if needed, to prevent the disclosure of classified information.

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 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 2019, changes to the presentation of the Statements of Net Cost and Budgetary Resources were made, in accordance with guidance provided in OMB Circular A-136. As such, the fiscal 2018 Statements of Net Cost and Budgetary Resources have been changed to conform to the current year presentation.

T. Subsequent Events

Subsequent events and transaction occurring after September 30, 2019 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, 2019 and 2018 consisted of the following (in thousands):

	2019	2018
Fund Balances:		
General Funds	$ 30,885	$ 25,474
Other Funds	14,916	15,061
Total	$ 45,801	$ 40,535
Status of Fund Balances:		
Unobligated Balance - Available	$ 4,781	$ 5,430
Unobligated Balance - Unavailable	1,869	1,640
Obligated Balance Not Yet Disbursed	24,235	18,404
Subtotal	30,885	25,474
Adjustment for Non-Budgetary Funds	14,916	15,061
Total Status of Fund Balances	$ 45,801	$ 40,535

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, 2019 and 2018 consisted of the following (in thousands):

	2019	2018
Intragovernmental Accounts Receivable:		
Due from Community Financial Development Institutions Fund	$ 270	$ 266
Due from Treasury Executive Office of Asset Forfeiture	677	1,076
Due from Financial Crimes Enforcement Network	-	3
Total Intragovernmental Accounts Receivable	$ 947	$ 1,345
Due from the Government of Puerto Rico	$ 551	$ 507
Due from Employees	1	5
Total Accounts Receivable Due from the Public	$ 552	$ 512

No allowance for doubtful accounts has been recognized, nor have any accounts been written off in either FY2019 or FY2018. 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, 2019 and 2018 consisted of the following (in thousands):

	2019	2018
Tax and Trade Receivables	$256,647	$ 205,158
Interest Receivable	33,925	30,966
Penalties, Fines and Administrative Fees Receivable	83,215	79,392
Total Tax and Trade Receivables	373,787	315,516
Allowance for Doubtful Accounts	(356,409)	(292,211)
Total Tax and Trade Receivables, Net	$ 17,378	$ 23,305

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, 2019 and 2018, gross receivables related to criminal restitution orders we monitored were $51.1 million and $51.7 million, respectively, of which we determined $544,000 and $1.1 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, 2019 and 2018 consisted of the following (in thousands):

	2019	2018
Due from the General Fund	$ 16,378	$ 19,428

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.

	2019	2018
Due to the General Fund	$ 11,500	$ 17,366
Due to the Wildlife Restoration Fund	5,878	5,939
Total Custodial Liabilities	$ 17,378	$ 23,305

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, 2019 and 2018 consisted of the following (in thousands):

2019	Estimated Useful Life (Years)	Acquisition Value	Accumulated Depreciation	Net Book Value
Internal Use Software	3 - 5	$ 13,644	$ 13,644	$ -
Equipment	4 - 6	12,253	10,080	2,173
Leasehold Improvements	2 - 5	3,180	2,346	834
Building	40	9,772	3,877	5,895
Total PP&E		$ 38,849	$ 29,947	$ 8,902

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

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, 2019 and 2018 consisted of the following (in thousands):

	2019	2018
Beginning Balance	$ 180	$ 182
Prepayments	48	54
Liquidations	(68)	(56)
Ending Balance	$ 160	$ 180

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

Note 8. Non-entity Assets

Non-entity Assets as of September 30, 2019 and 2018 consisted of the following (in thousands):

	2019	2018
Intragovernmental Non-entity Assets:		
Fund Balance with Treasury	$ 14,916	$ 15,061
Due from the General Fund	16,378	19,428
Total Intragovernmental Non-entity Assets	31,294	34,489
Tax and Trade Receivables, Net	17,378	23,305
Total Non-Entity Assets	48,672	57,794
Total Entity Assets	41,446	36,933
Total Assets	$ 90,118	$ 94,727

Note 9. Other Liabilities

Other Liabilities as of September 30, 2019 and 2018 consisted of the following (in thousands):

	2019	2018
Offers-in-Compromise not yet Accepted	$ 1,440	$ 1,251
Total Other Liabilities with the Public	$ 1,440	$ 1,251

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, 2019 and 2018 consisted of the following (in thousands):

	2019	2018
Accrued FECA Liability	$ 14	$ 8
Total Intragovernmental Liabilities not Covered by Budgetary Resources	14	8
FECA Actuarial Liability	59	78
Unfunded Leave	5,092	4,821
Total Liabilities with the Public not Covered by Budgetary Resources	5,151	4,899
Total Liabilities not Covered By Budgetary Resources	5,165	4,907
Total Liabilities Covered by Budgetary Resources	57,770	65,357
Total Liabilities	$ 62,935	$ 70,264

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 to Net Outlays 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, 2019 and 2018 consisted of the following (in thousands):

	2019	2018
Health Insurance	$ 3,009	$ 2,913
Life Insurance	11	10
Pension	1,724	1,417
Total Imputed Financing	$ 4,744	$ 4,340

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 2019 or 2018.

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 $1.7 million and $1.4 million for fiscal years 2019 and 2018 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 2019 to $7,268 from $7,151 in FY 2018, resulting in $3.0 million of imputed cost for employees' health benefits in FY2019 versus $2.9 million in FY 2018. The cost factor, as provided by OPM, for employees enrolled in the FEGLI program, remained unchanged from FY 2018 to FY 2019, at .02 percent of employees' basic pay. The FEGLI amounts totaling $11,000 and $10,000 for FY 2019 and FY 2018, respectively, 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, 2019 and 2018 consisted of the following (in thousands):

Fiscal Year Ended September 30, 2019

Activity	Budget Function Classification (BFC)	BFC Code	Gross Costs	Earned Revenue	Net Costs
Intragovernmental	Central Fiscal Operations	803	$ 33,557	$ (3,018)	$ 30,539
With the Public	Central Fiscal Operations	803	94,577	(3,310)	91,267
Consolidated	Central Fiscal Operations	803	$ 128,134	$ (6,328)	$ 121,806

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

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

The following chart displays balances from the FY 2018 Statement of Budgetary Resources and actual fiscal year balances included in the FY 2020 President's Budget. There were no differences related to the Salaries and Expense accounts. The FY 2021 budget, which would include FY 2019 actuals, had not been published at the time of this report.

Fiscal Year Ended September 30, 2018 (In Millions)	Statement of Budgetary Resources	President's Budget
Budgetary Resources:		
Appropriations	$ 111	$ 111
Spending Authority from Offsetting Collections	7	7
Budgetary Resources Available for Obligation	$ 118	$ 118
Outlays:		
Outlays, Gross	$ 118	$ 118
Actual Offsetting Collections	(6)	(6)
Outlays, Net	$ 112	$ 112

Additionally, for Special and Trust Fund Receipts, the FY 2020 President's Budget disclosed budget authority of $446 million for FY 2018, 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. To present the cover-over payments 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 associated 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, 2019 and 2018 consisted of the following (in thousands):

Fiscal Year	Apportionment Category	Direct Obligations	Reimbursable Obligations	Total New Obligations and Upward Adjs
2019	Category B	$ 121,600	$ 6,258	$ 127,858
2018	Category B	$ 112,338	$ 6,384	$ 118,722

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.

	2019	2018
Undelivered Orders, End of Year	$ 17,969	$ 14,186

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 2019 and FY 2018, TTB collected $19.8 billion and $20.6 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 2019 and FY 2018, TTB issued $844 million and $774 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 million in both FY 2019 and FY 2018 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, 2019 and 2018 consisted of the following (in thousands):

	2019	2018
Alcohol, Tobacco, and Firearms Excise Tax Refunds	$ 47,277	$ 44,848
Drawbacks on MNBP Claims	342,433	273,927
Interest and Other Payments	456	635
Refunds and Drawbacks	390,166	319,410
Cover-over Payments - Puerto Rico	445,324	446,026
Cover-over Payments - Virgin Islands	8,217	8,708
Amounts Provided to Non-federal Entities	453,541	454,734
Total Refunds, Drawbacks and Coverover Payments	$ 843,707	$ 774,144

Note 17. Custodial Revenue

Collection and Disposition of Custodial Revenue as of September 30, 2019 and 2018 consisted of the following (in thousands):

FY 2019 Collections and Refunds by Tax Year and Type

Revenue Type	2019	2018	2017	Pre-2017	FY 2019 Total
Excise Taxes	$ 14,572,323	$ 5,219,695	$ 2,428	$ 14,756	$ 19,809,202
Fines, Penalties, Interest and Other	1,980	377	126	1,110	3,593
Total Revenue Received	14,574,303	5,220,072	2,554	15,866	19,812,795
Less: Amounts Collected for Non-federal Entities	(452,969)	(572)	-	-	(453,541)
Total	$ 14,121,334	$ 5,219,500	$ 2,554	$ 15,866	$ 19,359,254
Refund Type					
Excise Taxes	$ 117,495	$ 256,631	$ 10,962	$ 4,622	$ 389,710
Fines, Penalties, Interest and Other	123	230	55	48	456
Total Refunds & Drawbacks	117,618	256,861	11,017	4,670	390,166
Amounts Provided to Fund the Federal Government	$ 14,003,716	$ 4,962,639	$ (8,463)	$ 11,196	$ 18,969,088

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

Note 18. Reconciliation of Net Cost to Net Outlays

The Reconciliation of Net Cost to Net Outlays details the activity impacting Net Cost but not Budgetary Outlays; and conversely, activity impacting Net Outlays but not Net Cost. The reconciliation does not include custodial activity, as this activity neither impacts Net Cost nor Budgetary Outlays.

Reconciliation of Net Cost to Net Outlays, as of September 30, 2019 and 2018 consisted of the following (in thousands):

2019	All Funds	Direct and Reimbursable Funds	Receipt Funds
Net Cost of Operations (SNC)	$ 121,806	$ 121,807	$ (1)
Components of Net Cost of Operations not Part of the Budgetary Outlays:			
Depreciation Expense	(1,602)	(1,602)	-
Increase/(Decrease) in Accounts Receivable	(358)	(358)	-
Increase(Decrease) Other Assets	(20)	(20)	-
Increase/(Decrease) in Assets	(378)	(378)	-
(Increase)/Decrease in Accounts Payable	(1,174)	(1,174)	-
(Increase)/Decrease in Salaries and Benefits Liabilities	(359)	(359)	-
(Increase)/Decrease in Other Liabilities	(260)	(260)	-
(Increase)/Decrease in Liabilities	(1,793)	(1,793)	-
Federal Employee Retirement Benefit Costs Paid by OPM and Imputed to Agency	(4,743)	(4,743)	-
Transfers Out/(In) Without Reimbursement	(600)	(600)	-
Other Financing Sources	(5,343)	(5,343)	-
Total Components of Net Cost of Operations not Part of the Budgetary Outlays	(9,116)	(9,116)	-
Components of Budgetary Outlays not Part of Net Cost of Operations:			
Acquisition of Capital Assets	1,082	1,082	-
			-
Total Components of Budgetary Outlays not Part of Net Cost of Operations	1,082	1,082	-
			-
Outlays, Net (Calculated Total)	$ 113,772	$ 113,773	$ (1)
Related Amounts on the Statement of Budgetary Resources:			
Outlays, Gross	$ 113,773	$ 113,773	$ -
Distributed Offsetting Receipts	(1)	-	(1)
Outlays, Net	$ 113,772	$ 113,773	$ (1)

2018	All Funds	Direct and Reimbursable Funds	Receipt Funds
Net Cost of Operations (SNC)	$ 117,016	$ 117,018	(2)
Components of Net Cost of Operations not Part of the Budgetary Outlays:			
Depreciation Expense	(1,758)	(1,758)	-
Increase/(Decrease) in Accounts Receivable	885	885	-
Increase(Decrease) Other Assets	(2)	(2)	-
Increase/(Decrease) in Assets	883	883	-
(Increase)/Decrease in Accounts Payable	(68)	(68)	-
(Increase)/Decrease in Salaries and Benefits Liabilities	(65)	(65)	-
(Increase)/Decrease in Other Liabilities	(62)	(62)	-
(Increase)/Decrease in Liabilities	(195)	(195)	-
Federal Employee Retirement Benefit Costs Paid by OPM and Imputed to Agency	(4,340)	(4,340)	-
Transfers Out/(In) Without Reimbursement	(982)	(982)	-
Other Financing Sources	(5,322)	(5,322)	-
Total Components of Net Cost of Operations not Part of the Budgetary Outlays	(6,392)	(6,392)	-
Components of Budgetary Outlays not Part of Net Cost of Operations:			
Acquisition of Capital Assets	1,541	1,541	-
Other	(7)	-	(7)
Total Components of Budgetary Outlays not Part of Net Cost of Operations	1,534	1,541	(7)
Outlays, Net (Calculated Total)	$ 112,158	$ 112,167	$ (9)
Related Amounts on the Statement of Budgetary Resources:			
Outlays, Gross	$ 112,167	$ 112,167	$ -
Distributed Offsetting Receipts	(9)	-	(9)
Outlays, Net	$ 112,158	$ 112,167	$ (9)

Note 19: Contingent Liabilities

As of September 30, 2019, 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
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
2019	7,865,036	11,375,038	567,330	260	5	5,126	19,812,795
Average	$ 7,862,332	$ 13,759,140	$609,353	$ 274	$ 2,448	$ 970	$ 22,234,517

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 transfers the collections directly to the Wildlife Restoration Fund. During fiscal years 2019 and 2018, TTB incurred $1.8 million and $2.4 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
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
2019	445,324	8,217	47,277	342,433	456	843,707
Average	$ 387,547	$ 8,190	$ 37,836	$ 318,350	$ 691	$ 752,614

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, 2019 and 2018
Unaudited (In Thousands)

	2019	2018
What Money is Available to Spend		
Total Resources	$ 134,508	$ 125,792
Less: Amount Available but not Agreed to be Spent	(4,781)	(5,430)
Less: Amount Not Available to Be Spent	(1,869)	(1,640)
Total Amounts Agreed to be Spent	$ 127,858	$ 118,722
How was the Money Spent		
Collect the Revenue		
Object Class 11: Personnel Compensation	$ 23,805	$ 23,748
Object Class 12: Personnel Benefits	7,722	7,745
Object Class 21: Travel	1,039	1,149
Object Class 23: Rent, Utilities, and Telecommunications Services	2,387	2,706
Object Class 25: Contractual Services	20,759	19,161
Object Class 31: Equipment and Software	2,494	1,533
Other	529	604
Total Collect the Revenue	58,735	56,646
Protect the Public		
Object Class 11: Personnel Compensation	31,209	29,146
Object Class 12: Personnel Benefits	9,918	9,275
Object Class 21: Travel	1,064	1,044
Object Class 23: Rent, Utilities, and Telecommunications Services	2,527	2,943
Object Class 25: Contractual Services	15,705	17,295
Object Class 31: Equipment and Software	1,568	1,303
Other	537	681
Total Protect the Public	62,528	61,687
Total Spending	121,263	118,333
Change in Amounts Remaining to be Spent	6,595	389
Total Amounts Agreed to be Spent	$ 127,858	$ 118,722
Who did the Money go to		
Federal Recipients	$ 29,031	$ 28,032
Non-Federal Recipients	92,232	90,301
Total Spending	121,263	118,333
Change in Amounts Remaining to be Spent	6,595	389
Total Amounts Agreed to be Spent	$ 127,858	$ 118,722

Intragovernmental Assets

Other Accompanying Information
Intragovernmental Assets
As of September 30, 2019
Unaudited (In Thousands)

Trading Partner	Agency Code	Fund Balance W/ Treasury	Accounts Receivable
Department of the Treasury	020	$ -	$ 947
General Fund	--	45,801	16,378
Total		$ 45,801	$ 17,325

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

Intragovernmental Liabilities

Other Accompanying Information
Intragovernmental Liabilities
As of September 30, 2019
Unaudited (In Thousands)

Trading Partner	Agency Code	Accounts Payable	Accrued FECA	Custodial and Other Liabilities
Government Printing Office	004	$ 94	$ -	$ -
Department of the Interior	014	6	-	5,878
Department of Justice	015	702	-	-
Department of Labor	016	-	14	-
Department of the Treasury	020	392	-	-
Office of Personnel Management	024	-	-	480
General Services Administration	047	42	-	-
Department of Health and Human Services	075	90	-	-
General Fund	--	-	-	11,663
Total		$ 1,326	$ 14	$ 18,021

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	-	-	5,939
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	--	-	-	17,509
Total		$ 1,503	$ 8	$ 23,872

Intragovernmental Earned Revenue

Other Accompanying Information
Intragovernmental Earned Revenue
For the Fiscal Years Ended September 30, 2019 and 2018
Unaudited (In Thousands)

Trading Partner	Agency Code	2019	2018
Department of Agriculture	012	$ -	$ 2,684
Department of Treasury	020	3,018	24
Total		$ 3,018	$ 2,708

Budget Function Classification (BFC)	BFC Code	2019	2018
Central Fiscal Operations	803	$ 3,018	$ 2,708
Total		$ 3,018	$ 2,708

Intragovernmental Gross Cost

Other Accompanying Information
Intragovernmental Gross Cost
For the Fiscal Years Ended September 30, 2019 and 2018
Unaudited (In Thousands)

Trading Partner	Agency Code	2019	2018
Library of Congress	003	$ (2)	$ 35
Government Printing Office	004	155	144
Department of Commerce	013	2	2
Department of Interior	014	51	43
Department of Justice	015	1,127	899
Department of Labor	016	26	6
United States Postal Services	018	23	16
Department of the Treasury	020	6,806	6,534
Office of Personnel Management	024	16,274	15,456
Department of Veterans Affairs	036	-	6
General Services Administration	047	4,807	4,926
Securities and Exchange Commission	050	-	1
Federal Labor Relations Authority	054	3	-
Department of the Air Force	057	-	20
Environmental Protection Agency	068	5	15
Department of Transportation	069	30	-
Department of Homeland Security	070	232	287
Department of Health and Human Services	075	120	48
Department of Housing and Urban Development	086	71	-
National Archives Records Administration	088	22	49
Department of Defense	097	37	24
Bureau of Consumer Financial Protection	581	-	1
General Fund	--	3,768	3,632
Total		$ 33,557	$ 32,144

During fiscal years 2019 and 2018, TTB incurred costs with other Federal agencies totaling approximately $33.6 million and $32.1 million, in each year respectively. The majority of those costs were associated with the five entities detailed below.

- **Department of Justice:** TTB paid ATF $1.1 million and $899,000 in fiscal years 2019 and 2018 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 2019 and 2018 in the amounts of $6.8 million and $6.5 million, respectively.

- **Office of Personnel Management:** TTB incurred $16.3 million and $15.5 million in costs for employee benefits during fiscal years 2019 and 2018 respectively.

- **General Services Administration:** TTB paid $4.8 million and $4.9 million to GSA for rent and information technology services in fiscal years 2019 and 2018 respectively.

- **General Fund:** The Bureau paid $3.8 and $3.6 million, in fiscal years 2019 and 2018 respectively, for employee benefits and lockbox fees.

Part IV
Appendices

4.1 Principal Officers of TTB

Administrator...Mary Ryan (Acting)

Deputy Administrator .... Daniel Riordan (Acting)

Assistant Administrator, Chief of Staff/External Affairs...................................... Elisabeth Kann

Assistant Administrator, Field Operations .... Nicholas Colucci

Assistant Administrator, Permitting & Taxation .... Allen Leftwich (Acting)

Assistant Administrator, Headquarters Operations .... Daniel Riordan

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:

Alcohol and Tobacco Tax and Trade Bureau

1310 G Street, NW, Box 12

Washington, DC 20005

(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 a Modern Labeling Program Focused on Service and Market Compliance
		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

REPORT WASTE, FRAUD, AND ABUSE

Treasury OIG Hotline: 1-800-359-3898
Hotline@oig.treas.gov

Gulf Coast Restoration Hotline: 1-855-584.GULF (4853)
gulfcoastrestorationhotline@oig.treas.gov

Access Treasury OIG reports and other information online:
www.treasury.gov/about/organizational-structure/ig