Audit Report

OIG-16-022

FINANCIAL MANAGEMENT

Audit of the Alcohol and Tobacco Tax and Trade Bureau's Fiscal Years 2015 and 2014 Financial Statements

December 22, 2015

Office of Inspector General

Department of the Treasury

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DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

December 22, 2015

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

FROM: Adé Bankole
Acting Director, Financial and Procurement Audit

SUBJECT: Audit of the Alcohol and Tobacco Tax and Trade Bureau's Fiscal Years 2015 and 2014 Financial Statements

We contracted with the independent certified public accounting firm of KPMG LLP (KPMG) to audit the financial statements of the Alcohol and Tobacco Tax and Trade Bureau (TTB) as of September 30, 2015 and 2014, and for the years then ended, to provide a report on internal control over financial reporting, and to report any reportable noncompliance with laws, regulations, contracts, and grant agreements 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. 15-02, *Audit Requirements for Federal Financial Statements*, and the Government Accountability Office/President's Council on Integrity and Efficiency *Financial Audit Manual*.

In its audit of the 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, opinions on the TTB's financial statements or conclusions about the effectiveness of internal control or compliance with laws and regulations. KPMG is responsible for the attached auditors' reports dated December 14, 2015, and the conclusions expressed in the reports. However, our review disclosed no instances where KPMG did not comply, in all material respects, with U.S. generally accepted government auditing standards.

Should you have any questions, please contact me at (202) 927-5329, or a member of your staff may contact Catherine Yi, Manager, Financial and Procurement Audit, at (202) 927-5591.

Attachment

Alcohol and Tobacco Tax and Trade Bureau

ANNUAL REPORT

FISCAL YEAR 2015

Alcohol and Tobacco Tax and Trade Bureau

ANNUAL REPORT

FISCAL YEAR 2015

Table of Contents

Introduction

Within its FY 2015 Annual Report, the 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 quality service, responsible management practices, effective consumer 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 expended its budget according to its major programs and accounted 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 – Program Performance Results. This section provides a discussion of results achieved for each performance measure related to the Collect the Revenue and Protect the Public strategic goals and an overview of the Bureau's accomplishments under its Management and Organizational Excellence goal.

Part III – Financial Results, Position, Condition and Auditors' Reports. 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, 2015, and September 30, 2014, 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 Bureau'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, an organization chart, 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

As an organization that values results, this past year was particularly challenging. Service degraded or performed below standard in many of our core lines of business, with consequences for the new and expanding businesses that rely on TTB. At a time when the industries we regulate are innovating and growing, it is incumbent on us to innovate and improve in response to this changing environment.

We have not been passive in this regard. We have taken a deliberate and data-driven approach to developing the strategies that should reap the highest benefit for TTB and its industries. These strategies combine technology enhancements, regulatory updates, and improved guidance to responsibly reduce the compliance burden on industry and facilitate commerce through improved service delivery.

TTB has long established itself as an e-Gov leader, with electronic filing options for each of its core tax and trade functions; however, FY 2015 marked a turning point in our ongoing system development efforts. Compliance issues with initial application submissions are compounding challenges in timely processing applications by more than doubling our workload in certain areas. TTB returns nearly 40 percent of initial label and formula applications, and nearly 75 percent of permit applications, due to errors. In addressing this issue, TTB is moving forward with system improvements designed to reduce application errors and cut down on the volume of resubmissions. Other system enhancements will streamline application submission and processing, with the goal of permanently reducing service times.

Changes in our policies and regulations, particularly in our alcohol beverage labeling program, are also in progress, and will clarify and consolidate the complex rules with which industry must comply. With federal labeling regulations largely unchanged since originally promulgated, TTB's modernization project will bring the regulations up to date with current TTB policies and industry practice. TTB also continues to review its requirements for formula approval for beverage alcohol products, with the intention to lift additional requirements for products that pose a low risk to consumer safety while maintaining adequate controls to ensure revenue protection.

Our data-driven approach is also helping us to make strides in our tax mission, supporting the fair administration of the tax code and the identification of tax evasion that undermines lawful business activity. By assimilating various data from TTB and other sources and using advanced analytics, we continue to pinpoint high-risk activity and direct our enforcement resources to address it. Domestically, we continue to make significant inroads into curtailing illicit cigarette manufacturing at retail locations using cigarette-making machines, identifying more than $9 million in evaded taxes to date. In policing the export trade in tobacco products, an area of significant vulnerability if products marked for export are diverted back into U.S. commerce without tax payment, our investigations have yielded more than $40 million in identified liabilities. TTB remains dedicated to addressing these and the other schemes that present a threat to federal revenues.

We will continue to face the challenges in our tax and trade mission with an eye toward strategic solutions that provide the highest return on investment and the greatest likelihood of sustained performance improvement.

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

John J. Manfreda

John J. Manfreda
Administrator

Vision, Mission, and Values

Vision

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

Mission

Our mission is to collect the taxes on alcohol, tobacco, firearms, and ammunition; protect the consumer by ensuring the integrity of alcohol products; and prevent unfair and unlawful market activity for alcohol and tobacco products.

Values

We value:

- **People.** We empower our people through trust, respect, and teamwork.
- **Results.** We take pride in accomplishing meaningful results for the American public.
- **Accessibility.** We are available to the public and our colleagues through collaboration, communication, and partnership.
- **Innovation.** We explore new and better methods of conducting business, take manageable risks to improve our operations, and evolve based on results.
- **Service.** We are professionals dedicated to public service.

TTB Strategic Goals and Objectives

Strategic Goal: Collect the Revenue

Industry remits the proper federal tax on alcohol, tobacco, firearms, and ammunition products

Tax Verification and Validation. Ensure voluntary compliance in the timely and accurate remittance of tax payments

Civil and Criminal Enforcement. Detect and address excise tax evasion and other criminal violations of the Internal Revenue Code in the industries TTB regulates

Strategic Goal: Protect the Public

Alcohol and tobacco industry operators meet permit qualifications, and alcohol beverage products comply with federal production, labeling, and marketing requirements

Business Integrity. Ensure that only qualified persons and business entities operate within the industries TTB regulates

Product Integrity. Ensure that alcohol beverage products comply with federal production, labeling, and advertising requirements

Market Integrity. Ensure fair trade practices throughout the alcohol beverage marketplace

Strategic Goal: Management and Organizational Excellence

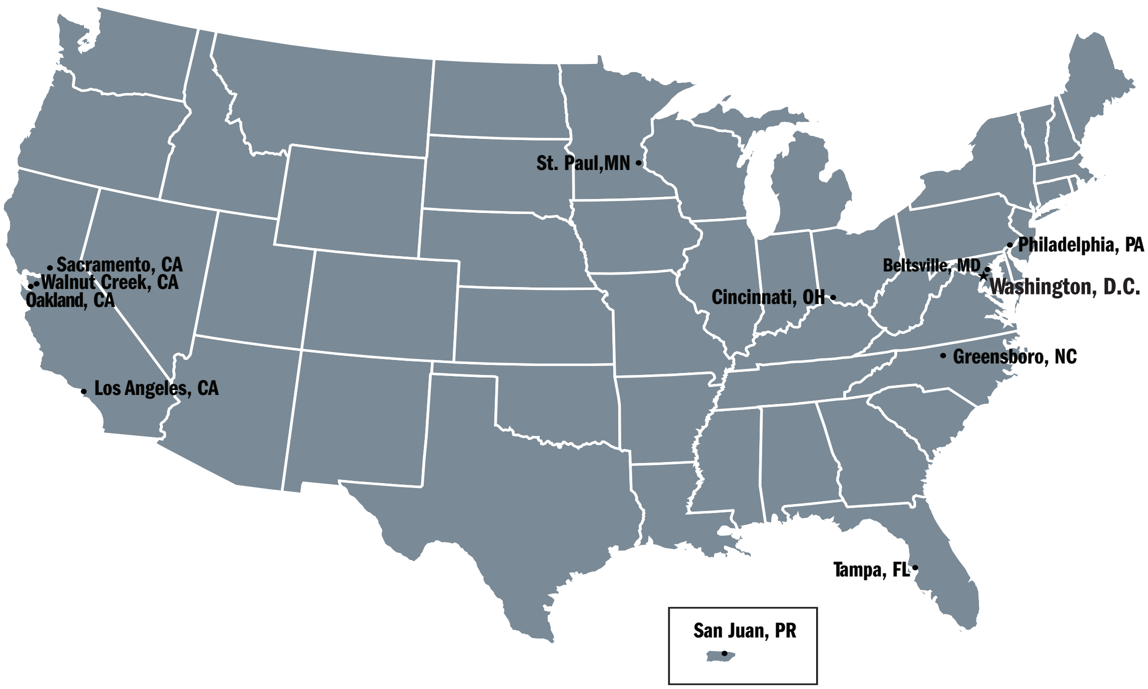
Effectively managed resources and human capital for maximum performance, efficiency, and program results

Human Capital Management. Maintain a qualified, engaged, and satisfied workforce

Technology Solutions. Deliver effective, streamlined, and flexible IT solutions that add value and support program performance

Finance and Performance Results. Facilitate strategic management and financial accountability through the delivery of timely and reliable financial and performance information

TTB Office Locations



Industry at a Glance	FY 2015	FY 2014
Total TTB Permittees	76,341	71,900
Permittees Subject to Tax	20,033	17,558
Permittees Not Subject to Tax	56,308	54,342
TTB Permittees by Industry Type		
Alcohol	97%	97%
Tobacco	1%	1%
Firearms	2%	2%
TTB Taxpayers	11,689	10,548

TTB at a Glance	FY 2015	FY 2014
Employees	473	473
Office Locations	12	12
Budget Authority	$100 Million	$99 Million
Revenue Collected	$22.3 Billion	$22.2 Billion
Original and Amended Permits Received		
Original Permits	7,852	8,170
Amended Permits	19,562	16,761
Certificate of Label Approval Applications Received	153,867	142,440

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Part I:
Management's Discussion and Analysis

Profile of a Bureau

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

TTB is staffed with approximately 470 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 10 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 teams. Additionally, the Bureau has two laboratory facilities in Walnut Creek, California and Beltsville, Maryland. See Part IV of this report for a chart outlining the TTB organizational structure.

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 place restrictions on who can make, sell, and distribute these commodities.

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

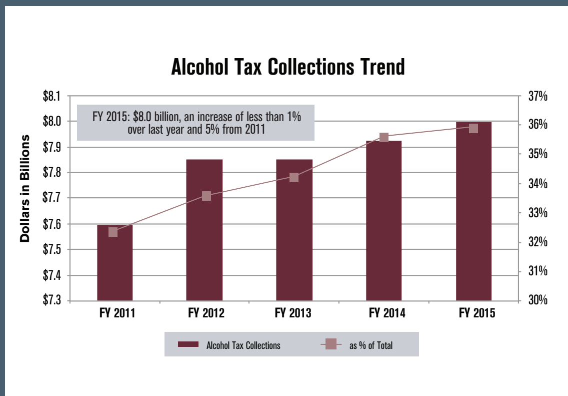
1 Chapters 51 and 52 of the IRC provide for excise taxation and authorize operations of alcohol and tobacco producers and related industries, and IRC sections 4181 and 4182 provide for excise taxes for firearms and ammunition.

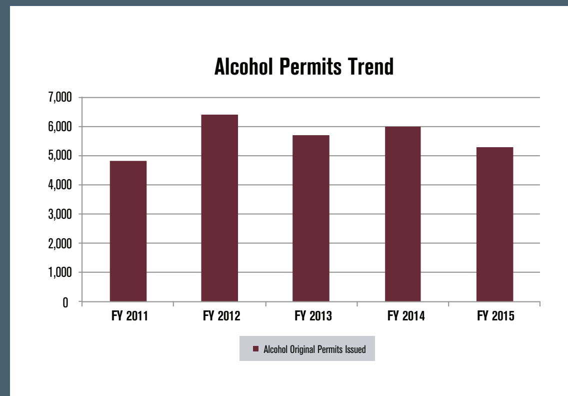
2 The FAA Act provides for regulation of those engaged in the alcohol beverage industry and for protection of consumers through certain requirements regarding the labeling and advertising of alcohol beverages. The FAA Act also includes provisions to preclude unfair trade practices that serve as barriers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

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

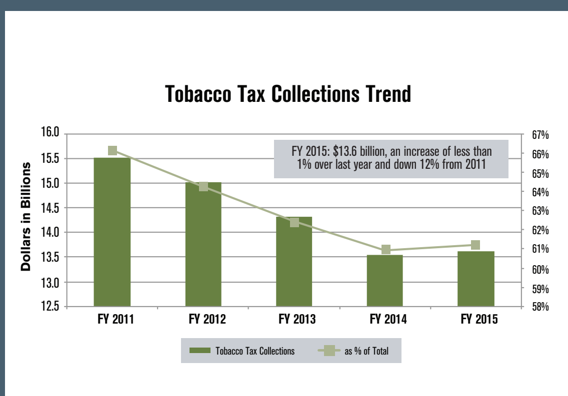
4 The Webb-Kenyon Act prohibits the shipment of alcohol beverages into a state in violation of that state's laws.

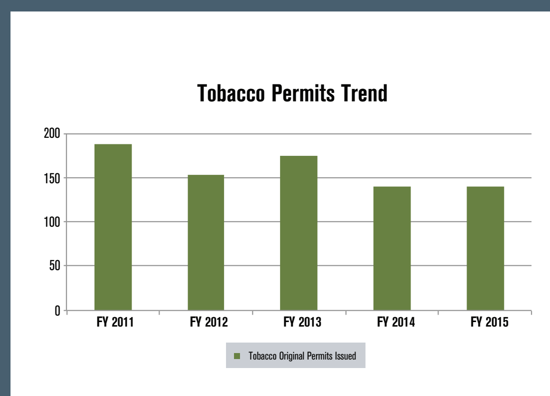
Alcohol Industry Snapshot



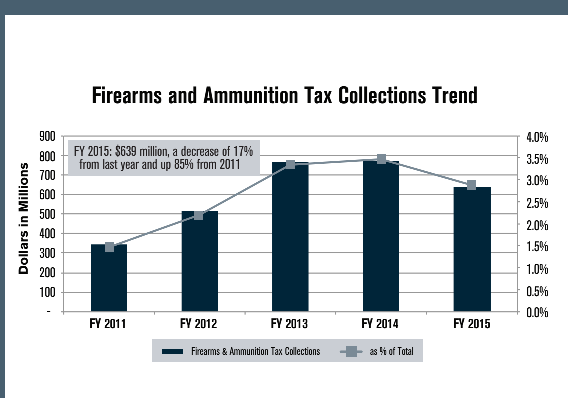


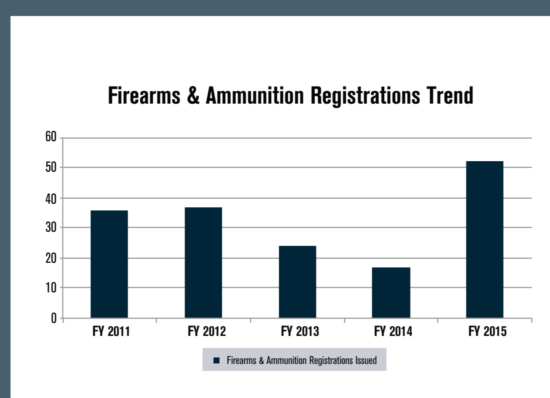
Tobacco Industry Snapshot





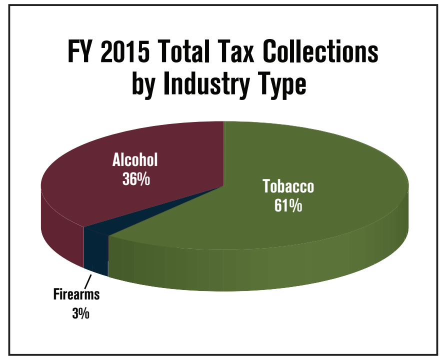
Firearms & Ammunition Industry Snapshot





Performance Highlights

Collect the Revenue



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 $22.3 billion. TTB excise tax collections reached an historic high of $23.8 billion in FY 2010, principally due to increased receipts from the tobacco industry. Today, tobacco revenues comprise more than 60 percent of TTB's total excise tax collections.

In FY 2015, TTB collected $13.6 billion in tobacco tax revenue, an increase of less than 1 percent compared to FY 2014 collections. Effective enforcement contributed to this result; however, 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. TTB will continue to exercise its jurisdiction to support tax compliance and deter illicit trade.

The alcohol beverage industry in the United States accounts for approximately 36 percent of the excise tax revenue collected by TTB. In FY 2015, TTB collected approximately $8 billion in revenue from U.S. wineries, breweries, and distilleries, a nearly 1 percent increase over the prior year. Although economic forecasts predict continued modest growth in the U.S. alcohol industry as a whole, excise tax collections will likely remain relatively constant due to a number of variables, including increasing volumes in imports, for which CPB collects the tax; increasing volumes of exports, on which no tax is due; and declining sales by volume from the country's largest brewers, who account for over 90 percent of the beer sold in the U.S. The rapid expansion of small wineries, breweries, and distilleries will not entirely offset the declines in sales and tax payments by the large companies as small beer and wine producers are eligible for reduced tax rates or tax credits based on their production volume. This trend is expected to continue through FY 2017.

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 $250 million in FY 2006 to $638 million in FY 2015, an increase of $388 million over the past decade, or a 155 percent growth in tax revenue. Historically, increases in reported FAET revenue can be attributed to growth in sales due to external factors as well as TTB's enforcement presence, which increases collections and promotes voluntary compliance.

Civil Tax Enforcement

Tax Classification

The tax rate on alcohol and tobacco products depends on a variety of factors, including product type (i.e., wine, spirits, or malt beverage) 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 tobacco product evaluations during audits to check for proper tax classification based on the characteristics of the product as defined by statute. For alcohol beverages, classification requires that TTB review the formula of certain products before they enter the market.

Shifting Tobacco Market Trends due to Tax Rates

The significant differences in the federal excise tax rates on cigarettes and other tobacco products highlight the importance of TTB's tax classification activities. Since the new federal excise tax rates on tobacco products took effect in April 2009, TTB has identified and monitored significant market shifts toward lower-taxed tobacco products by manufacturers and price-sensitive consumers, contributing to declines in tax revenue.

In the past six years, TTB data indicates a near complete reversal in the market shares for pipe and roll-your-own tobacco in response to the lower tax rate on pipe tobacco.[5] Because the two products can be similar (and even interchangeable), and because the tax on roll-your-own tobacco was significantly increased, a portion of the roll-your-own tobacco market has switched to pipe tobacco, resulting in a dramatic shift in the volume of pipe tobacco and roll-your-own tobacco reported as removed by domestic manufacturers.

Because of the lack of clear standards in the tax code to differentiate pipe tobacco from roll-your-own tobacco, TTB has initiated rulemaking on the types of objective standards that would provide a basis for differentiating between these two products for tax purposes. At the same time, in support of this rulemaking, the TTB Tobacco Laboratory has been evaluating proposed methods and standards. The goal is to set forth objective criteria, based on physical characteristics of the products, to distinguish between pipe tobacco and roll-your-own for tax purposes. TTB intends to publish subsequent rulemaking in this area.

The market shares for small cigars and large cigars, which were relatively equal prior to the 2009 tax rate revisions, have also starkly shifted toward large cigars following the increase in the small cigar tax rate. Large cigars are subject to an ad valorem tax and may have a significantly lower tax than a small cigar depending on the sale price of the cigar. [6]

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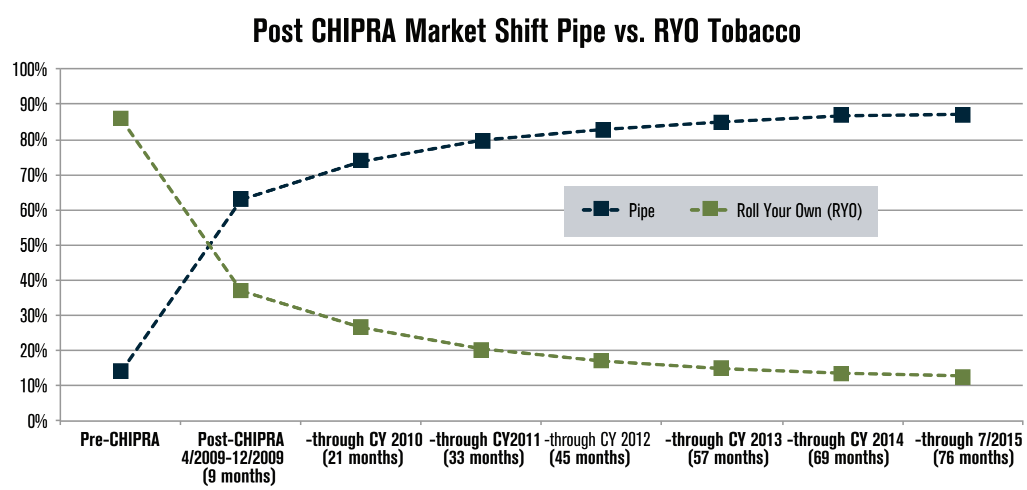
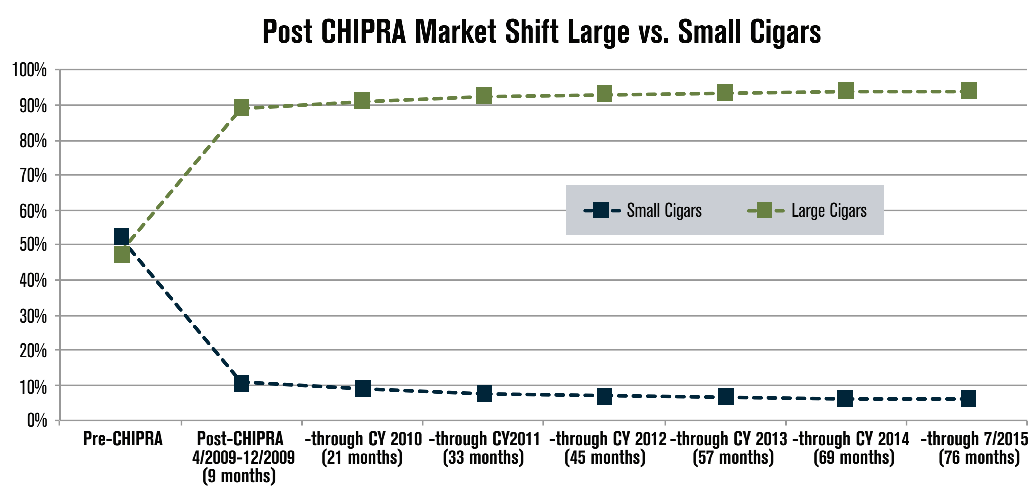
5 Prior to 2009, the tax rates on pipe tobacco and roll-your-own tobacco were the same at just under $1.10 per pound. At the revised tax rates, the tax on pipe tobacco was increased to just over $2.83 per pound, while the tax on roll-your-own tobacco was increased to $24.78 per pound.

6 Large cigars are the only tobacco product for which the excise tax is based on the manufacturer or importer's sale price, up to a maximum amount; all other tobacco products are taxed at a flat rate based either on the number of units or the weight of the product. As a result, since the tax increase on small cigars, TTB has found that manufacturers and importers are increasing the weight of products that had been classified as small cigars prior to 2009 so that they meet the statutory definition of a large cigar.

Market Shifts in Tobacco Products

Significant shifts in the tobacco industry have developed since Congress revised the federal tax rates on tobacco products effective April 2009, particularly for small and large cigars and pipe and roll-your-own tobacco. An independent review by the Government Accountability Office (GAO) examined the market shifts in smoking tobacco products and federal revenue losses (GAO-12-475). In 2014 testimony before the Senate Finance Committee (GAO-14-811T), GAO estimated that federal revenue losses due to market shifts from roll-your-own to pipe tobacco and from small to large cigars range from $2.6 to $3.7 billion for the period April 2009 through February 2014. GAO also confirmed its original recommendations that Congress consider equalizing tax rates on roll-your-own and pipe tobacco and, in consultation with the Department of the Treasury, consider options for reducing tax avoidance due to tax differentials between small and large cigars. GAO also recognized that TTB has taken steps to respond to these market shifts, including its efforts to differentiate between roll-your-own and pipe tobacco for tax collection purposes, but acknowledged that TTB has limited options to do so under current law. Current data indicates that this trend continued in FY 2015.





TTB Tobacco Laboratory Supports Advances in Tobacco Science

TTB's Tobacco Laboratory became a member of the U.S. Technical Advisory Group of the International Organization for Standardization (ISO) Technical Committee 126 (TC126) for tobacco and tobacco products.

ISO TC126, a chapter of ISO, was established to develop consensus methods and protocols specific to tobacco and tobacco products. These consensus methods are developed through ISO TC126's technical committees, which are composed of tobacco scientists and experts from academic institutions, tobacco industry, and government agencies.

As a member of ISO TC126, TTB's Tobacco Laboratory will be able to convert its existing methods, as well as future methods, into ISO consensus methods to enhance their technical credibility and support regulatory oversight.

Currently, the FDA's Center for Tobacco Products is also a member of ISO TC126; TTB's Tobacco Laboratory is the second federal laboratory to become a member of the ISO TC126 chapter in the United States.

The incentive to avoid tax is reflected in the overall decrease in the average taxable sale price for large cigars in the past five years. Large cigar manufacturers may be lowering their taxable sale price in a number of ways in order to realize net savings, including through legitimately adding weight to small cigars to qualify them for the large cigar tax rate. Another common scenario is to "layer" sales transactions to avoid taxes, which can involve inserting an intermediate sale into the distribution chain to lower the taxable sale price of the cigar. This activity and others, which could represent legal tax avoidance or illegal tax evasion depending on the circumstances of the case, present an ongoing enforcement challenge for TTB.

Supporting Global Alcohol and Tobacco Tax Administration

TTB supports effective global excise tax enforcement through technical collaborations with domestic partners and foreign counterparts. TTB's expertise extends from alcohol and tobacco excise tax administration to advanced analytical techniques in the testing of these products to support lawful and compliant trade.

During FY 2015, TTB hosted delegations from Georgia and Vietnam to provide information on the U.S. framework for alcohol regulation, including tax administration, enforcement methods, and export requirements. TTB also participated in meetings with the East African Community (EAC) to build the capacity of EAC partner states to supply the required notifications to the World Trade Organization (WTO) on technical barriers to trade, including EAC's standards for alcohol beverages.

Further, in FY 2015, TTB increased and strengthened international connections with tax administration officials in foreign governments and across stakeholder organizations, such as the Pan American Health Organization (PAHO) and the Organization for Economic Cooperation and Development (OECD).

PAHO requested TTB's technical assistance in its initiative to enhance compliance among Western Hemisphere member states with the obligations of the Protocol to Eliminate Illicit Trade in Tobacco Products, a World Health Organization treaty that was finalized in 2012. Through this effort, TTB will be able to share its best practices with similarly situated officials in foreign countries, and leverage the resources of the international community to address the global issue of illicit trade, which may cross into the United States.

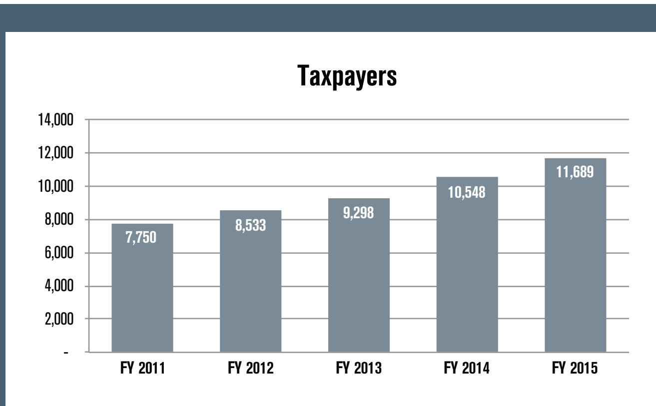
TTB also participated with more than 90 governments, multinational enterprises, international organizations, think tanks, and academia on the OECD Task Force on Charting Illicit Trade, which is focused on charting and combatting illicit trade in a variety of sectors, including illicit tobacco, and on the relationship between illicit trade, organized crime, and terrorist financing.

TTB also continued its efforts to advance tobacco science through the development of methods and protocols to identify physical and chemical characteristics of tobacco products for regulatory and tax enforcement purposes. In FY 2015, TTB's Tobacco Laboratory partnered with the U.S. Food and Drug Administration's Center for Tobacco Products to develop and validate an analytical method for polyphenols in tobacco leaves and tobacco products to support rulemaking and enforcement efforts by both agencies. TTB also developed a method for the analysis of emerging products that claim to be tobacco-free, such as e-cigarettes and e-liquid, which could assist TTB in determining if these products are subject to its jurisdiction.

In FY 2015, TTB also coordinated and hosted an international wine technical forum, which provided an opportunity for TTB to address emerging technical issues and encourage scientific collaboration between TTB, industry scientists, and other wine regulators. Participants at this year's forum included representatives from TTB and the Wine Institute as well as officials from key wine producing and importing economies such as Australia, Canada, China, and Mexico. The technical principles discussed during the international forum support a multi-year project to promote coherence in wine regulation throughout the Asia-Pacific region.

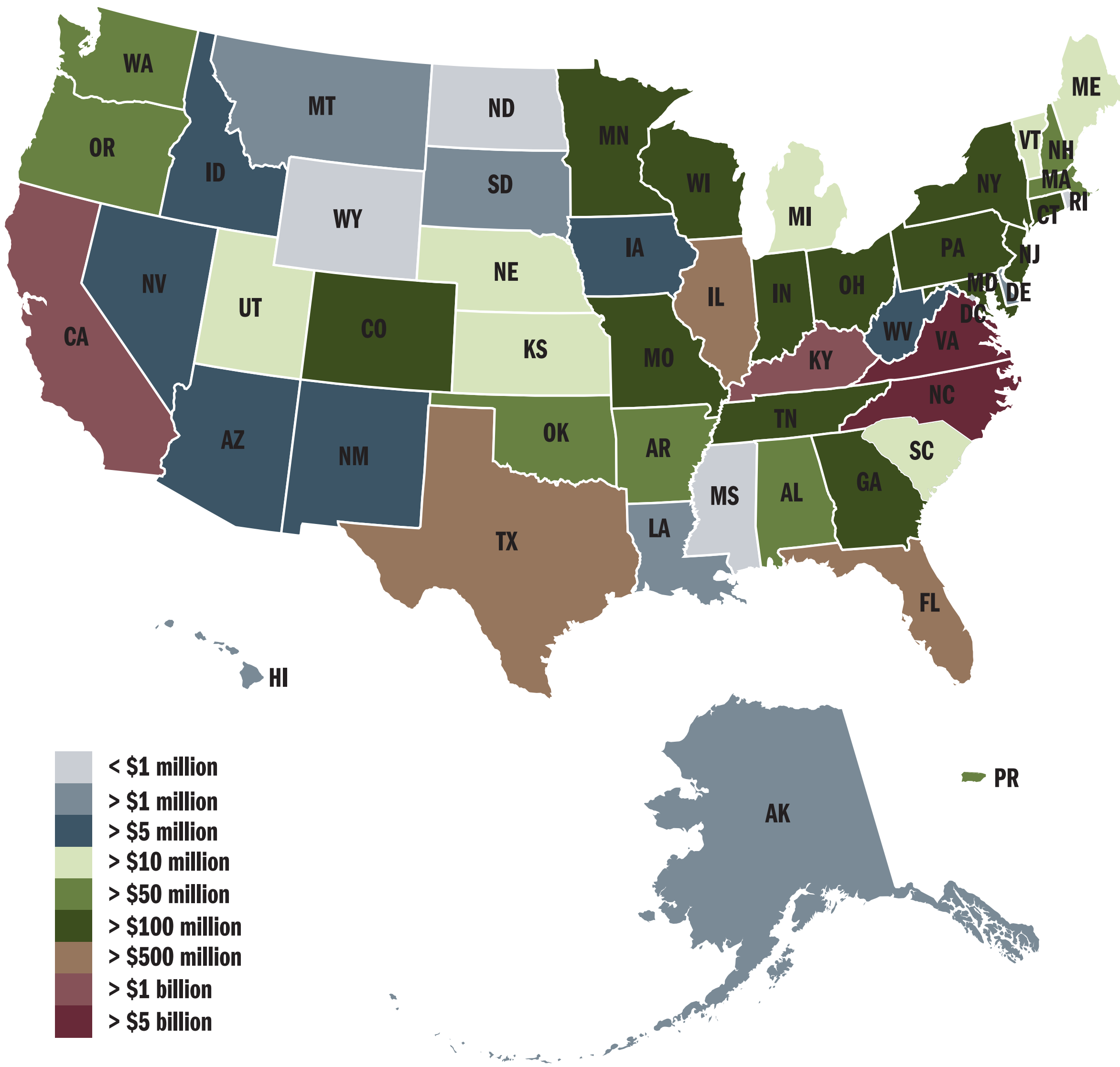
Tax Verification

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 activity. Through a combination of risk modeling and data analytics, TTB continues to focus on identifying the highest risk activity for audits and investigations. Continuous refinements to these models and sound intelligence enable TTB to efficiently deploy its enforcement resources to address the most serious revenue threats.



TTB regulates approximately 76,000 permittees, but only a subset file a return and pay taxes to TTB in a given fiscal year. The largest segment of TTB permit holders–alcohol importers and wholesalers–do not pay taxes to TTB. Up until 2010, there were several years of modest growth in the number of TTB taxpayers. Since 2011, however, the number of TTB taxpayers has increased 51 percent, with the TTB tax base growing by approximately 10 percent or more in FY 2015 for the fourth consecutive fiscal year.

FY 2015 Tax Collections by State



Addressing Revenue Threat from Cigarette-Making Machines

Any person who makes a cigarette-making machine available to consumers for commercial purposes is considered a tobacco product manufacturer under federal law and is required to obtain a TTB permit and pay the applicable taxes. These machines began to increase in popularity in 2009, as consumers responded to the increased tax rate on cigarettes and roll-your-own tobacco by substituting a lower taxed alternative, pipe tobacco, in the machines. Further, the 2009 tax rate change coincided with technological advances in cigarette-making machines, some of which could make cigarettes from either pipe tobacco or roll-your-own tobacco at a much quicker rate, taking only eight minutes to produce a carton of 200 cigarettes as compared to the three hours needed to produce a carton using older model machines.

The use of these machines continues to create enforcement challenges and strain TTB enforcement resources given the number of locations and the relative tax exposure involved in each case. TTB partners with states to identify establishments operating cigarette-making machines and take enforcement action. In FY 2015, TTB improved its data sources related to pipe tobacco that may be used in these illicit manufacturing operations, using data analysis to augment traditional intelligence. To date, TTB's enforcement efforts at retail establishments have resulted in the identification of $9.2 million in tax liabilities. Going forward, TTB will continue to engage its law enforcement partners and collect additional intelligence on locations with these machines to identify and collect unpaid tax liabilities from unpermitted manufacturers shirking their tax responsibilities.

Enforcing Compliance in the Import and Export Trade

Due to the known revenue risk in the import and export trade in alcohol and tobacco products, in FY 2015, TTB continued to focus its enforcement on these at-risk points in the supply chain. TTB's efforts, in collaboration with CBP and Homeland Security Investigations, have helped to maintain an even playing field in the international trade of alcohol and tobacco.

Exports pose a significant revenue threat because alcohol and tobacco products intended for export may be placed in a customs bonded warehouse, foreign trade zone, or tobacco export warehouse without payment of tax because they are not intended for the U.S. market. Some tax evasion schemes involve diversion of these products into domestic commerce to evade federal excise taxes.

In FY 2015, TTB examined suspected tax fraud and diversion at customs bonded warehouses, foreign trade zones, and tobacco export warehouses, following in-bond transfers of alcohol and tobacco product shipments to verify the exportation of these non-taxpaid products. To date, investigations in these areas have yielded $41 million in identified tax liabilities as well as criminal referrals.

In addition, specifically with regard to diversion risk associated with the importation and exportation of alcohol and tobacco products, TTB has been working with CBP on cooperative enforcement efforts, including the development and implementation of the International Trade Data System (ITDS). The purpose of ITDS is to provide a "single window" through which importers and exporters will submit electronically all information necessary to comply with all government agencies' requirements for the clearance of imports and exports. This cooperative system and the transactional trade data that it will provide are expected to factor prominently in TTB's tax enforcement strategy going forward. In addition to more timely information on imports and exports for enforcement purposes, TTB expects that this effort will improve communication and coordination between CBP, TTB, and other participating agencies on tax and trade issues.

Addressing the Revenue Risk from Processed Tobacco

Manufacturers and importers of processed tobacco distribute millions of pounds of processed tobacco annually to a myriad of brokers, manufacturers, and other tobacco processors for use in cigarettes and other taxable tobacco products. Manufacturers and importers of processed tobacco must obtain a TTB permit and report to TTB on the first removal, transfer, or sale of processed tobacco. As processed tobacco is not subject to tax, the diversion of this product for use in the illegal manufacture of cigarettes or other tobacco products poses a significant revenue risk, and TTB continues to face enforcement challenges due to the unrestricted sale of processed tobacco.[7]

In FY 2014, the last complete year of data examined, nearly 15 percent of the roughly 994 million pounds of processed tobacco removals reported to TTB (excluding exports) were shipped to entities that do not hold a federal permit with TTB. Although some of these removals represent legitimate sales to brokers, who may sell processed tobacco to a TTB-permitted manufacturer of tobacco products, other removals may be ultimately destined for illicit production. TTB continues to investigate these transfers, with identified liabilities to date of approximately $180 million in unpaid federal excise taxes and several referrals for criminal investigation.

Criminal Enforcement

TTB is the federal agency responsible for detecting and addressing federal excise tax evasion in relation to alcohol, tobacco, firearms, and ammunition products. Under its criminal authority, TTB is charged with identifying any gaps in tax payment from 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 well-established source of funding for criminal enterprises.

Increases in federal and state tobacco tax rates have further increased the profit incentive to engage in cigarette trafficking, which has resulted in a proliferation of tobacco diversion schemes. A Government Accountability Office report found that there are a wide range of schemes used to evade tobacco excise taxes and fees and described the scope of diversion activity.[8] However, the diversion of products to evade federal excise tax is not limited to tobacco. Enforcement experience also indicates that there is criminal activity in the alcohol trade, with non-taxpaid product removals, illegal imports, and fraudulent labeling just a few of the schemes used to evade taxes, defraud American consumers, and undermine the legitimate alcohol trade. TTB has also initiated criminal investigations related to firearms and ammunition excise tax evasion.

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7 The Administration proposed legislative amendments in the FY 2014, FY 2015, and FY 2016 budgets that would tax processed tobacco when it is removed by the manufacturer or importer for delivery to any non-permitted domestic entity.

8 "Illicit Tobacco: Various Schemes are Used to Evade Taxes and Fees," U.S. Government Accountability Office, GAO-11-313, March 2011.

Achieving Criminal Enforcement Results

TTB's criminal enforcement program is critical to the Bureau's ability to effectively curtail current illicit operations and deter others from engaging in diversion activity. Although still in its early stages, TTB's criminal enforcement program has exhibited notable results. With a small cadre of special agents, obtained through an interagency agreement with the Internal Revenue Service Criminal Investigation Division, TTB has opened a total of 91 cases, with identified liabilities of over $551 million in estimated alcohol, tobacco, firearms, and ammunition excise taxes and approximately $124 million in criminal seizures. To date, 89 of 91 (or 98%) of cases presented to the U.S. Attorney's Office have been accepted for further investigation, demonstrating both the merit and magnitude of these cases. Further, TTB has maintained a 100 percent conviction rate on cases fully resolved through the legal system. TTB's criminal enforcement program is also building key relationships with other federal and state law enforcement agencies, generating referrals for additional cases and opportunities for partnering in future cases and investigations.

Protect the Public

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

Business Integrity

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 products manufacturer, importer, or exporter. The FAA Act includes provisions that require a permit for alcohol beverage producers, importers, or wholesalers; the IRC includes similar permitting requirements for tobacco manufacturers, importers, and export warehouses, as well as some alcohol industry members. The number of applicants filing for an original permit or registration with TTB has grown 25 percent between fiscal years 2011 and 2015. Today, the Bureau regulates more than 76,000 industry members.

Under its statutory authority, TTB evaluates applications prior to issuing a permit 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 prevents prohibited persons from commencing operations and potentially diverting products from legitimate commercial channels to fund illicit activity. Given the substantial tax revenue associated with the commodities TTB regulates, this activity plays an important role in protecting federal revenues.

Efficiency in permit processing is equally critical to support economic opportunities for U.S. businesses. Prompt turnaround times for permit application processing enables those who are qualified to hold a federal permit to begin their operations sooner, facilitating U.S. economic growth in a fair marketplace.

Improving Service in Permit Processing

TTB processes applications for 23 types of permits or registrations for the alcohol, tobacco, firearms, and ammunition industries. In FY 2015, TTB processed approximately 7,350 applications for a federal permit or registration, and qualified approximately 5,450 new business operations. These are predominantly small businesses, which contribute to local job opportunities and often lead the industry in product innovation.

The Permits Online electronic filing system has helped TTB manage the influx of applications resulting from sustained industry growth. However, even as electronic filing rates reached 84 percent, the average processing time for a new permit application increased from 84 days in FY 2014 to 94 days in FY 2015. Although the electronic filing system provides certain efficiencies, including more timely and effective industry correspondence, it does not diminish the time needed by TTB to review each application. With applications increasing nearly 40 percent in five years, TTB resources have not kept up with this level of demand for its services.

Significantly, industry growth in the number of alcohol beverage producers, driven by a boom in small breweries, distilleries, and wineries, has also contributed to delays in permit processing times. These application types are among the most complex, requiring extensive documentation and review, and are often submitted incomplete or with errors that require follow up and reprocessing. In FY 2015, more than 75 percent of new permit applications were returned to applicants for correction or additional information.

TTB is meeting these challenges through its priority project to improve its business qualification process, including through enhancements to its electronic filing and processing environment. TTB achieved a significant milestone in FY 2015 by deploying a new release of Permits Online in February 2015, which added new system help features to improve submission compliance and addressed a bottleneck in the permit

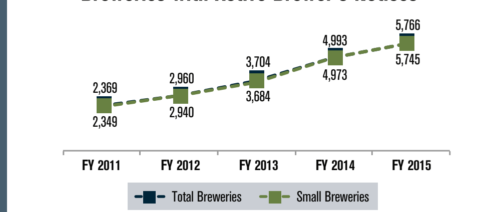
Growth in Alcohol Producers

The number of U.S. wineries, breweries, and distilleries continues to increase. Since 2011, the number of wineries has grown 26 percent, with small wineries producing less than 250,000 wine gallons annually driving the increase.

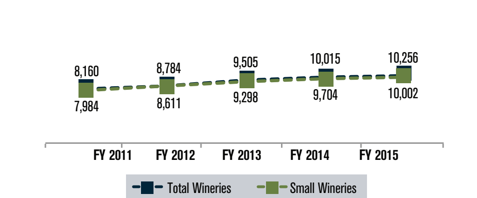
U.S. breweries increased dramatically in the same time period, increasing 143 percent overall. TTB data indicates that growth is strong in the small brewer segment, defined as those who produce less than 2 million barrels annually. Small brewers increased 91 percent in 5 years.

There has also been significant growth in the number of distillers, which increased by 109 percent since 2011. This growth is driven by a boom in small distillers, defined as beverage distilled spirits producers that taxpaid less than 100,000 proof gallons annually. This segment has increased by 120 percent in 5 years. TTB modified its method of deriving data on small producers in FY 2015 to include all permits with potential activity.

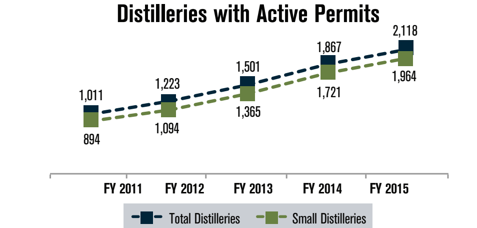
Breweries with Active Brewer's Notices



Wineries and Bonded Wine Cellars with Active Permits



Distilleries with Active Permits

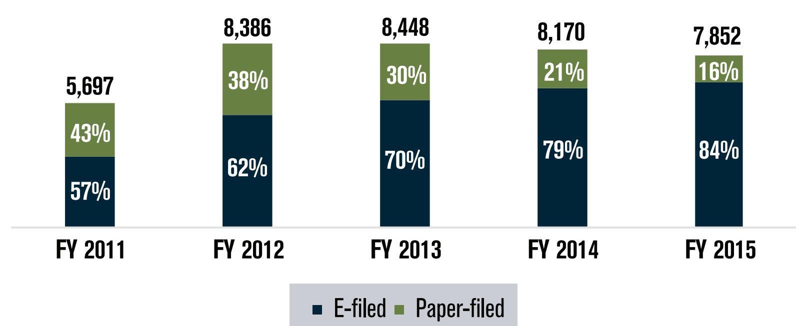


processing workflow. Early data indicated reduced processing times for new permits since the release, decreasing from a high of 95 days in January to 68 days in July, though these gains were not enough for TTB to achieve its annual performance target of 75 days in FY 2015. At year end, only 47 percent of permit applications met the 75-day service standard.

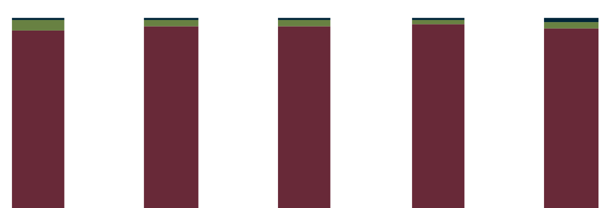
In FY 2016, TTB plans to improve service delivery through additional workflow and system enhancements to streamline both the filing and processing of permit applications. TTB continues to make steady progress in the development of a redesigned version of Permits Online. The new design will enhance usability for industry members and improve the compliance rate of submissions, reducing resubmitted applications and the overall workload volume that are contributing to delays. The redesigned system will also simplify the filing of permit amendments, a high volume activity that remains largely paper-based, which should further decrease processing times. With these efforts, TTB will be positioned to achieve sustained performance improvements by the end of FY 2017.

Permitting Stats

Original Permits or Registrations Received by Filing Method



Original Permits Issued by TTB



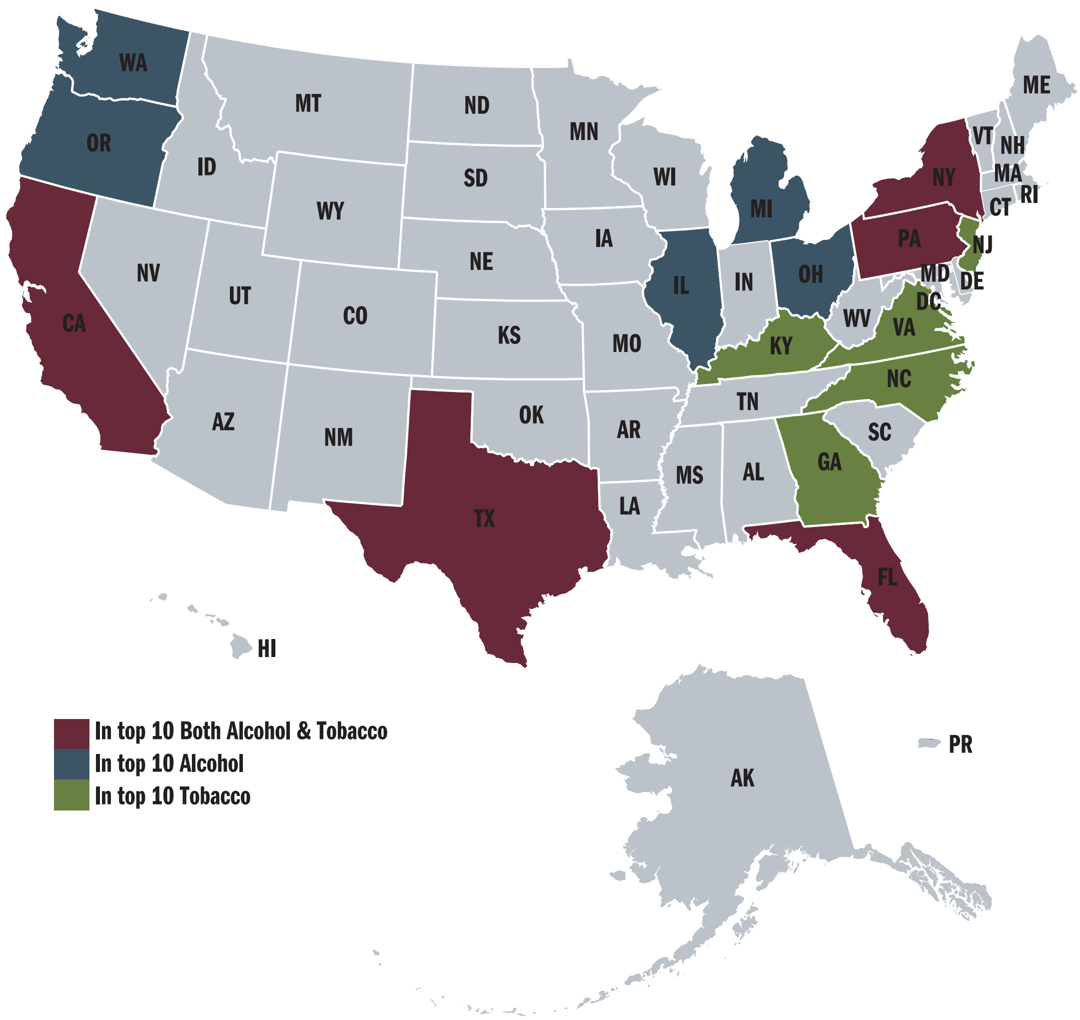
	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Firearms	36	37	24	17	52
Tobacco	188	153	174	140	140
Alcohol	4,839	6,384	5,660	5,959	5,261

Since FY 2011, the annual number of applications for original permits and registrations has increased by nearly 40 percent. Alcohol wholesaler permit applications spiked in FY 2012 due to a change in Washington State law, and have since decreased. Growth continues in the number of small wineries, breweries, and distilleries.

In FY 2015, TTB issued over 5,450 permits and registrations, primarily to new alcohol beverage producers, importers, and wholesalers.

Electronic filing rates continue to rise, with 84 percent of new applications submitted via Permits Online in FY 2015. TTB expects this trend to continue as it implements planned system and online guidance enahcements.

FY 2015 Permittees by State



Top 10 States by Number of Alcohol Permits	
State	**# Permit Holders**
California	6,678
New York	1,734
Washington	1,698
Texas	1,317
Pennsylvania	1,243
Oregon	1,111
Michigan	1,093
Ohio	1,009
Illinois	922
Florida	886

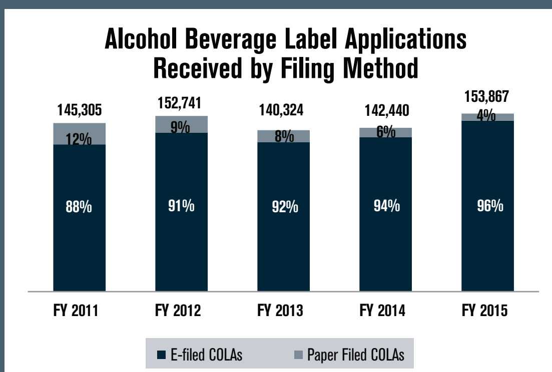
Top 10 States by Number of Tobacco Permits	
State	**# Permit Holders**
Florida	199
California	88
North Carolina	70
New York	60
Virginia	41
Texas	36
Pennsylvania	35
New Jersey	31
Kentucky	21
Georgia	20

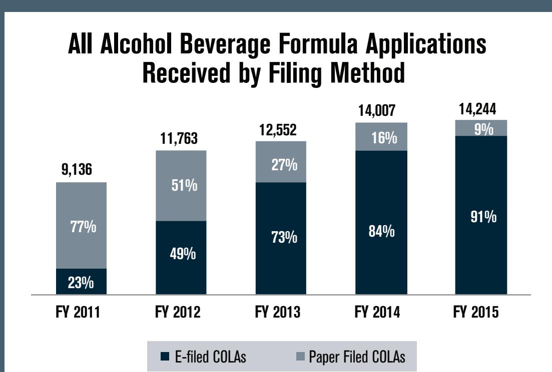
Label and Formula Electronic Filing Rates

Electronic filing rates for label and formula applications continued to increase in FY 2015. Electronic filing has many benefits, particularly to industry members, who generally experience faster response times and higher approval rates as compared to paper filers.

Electronic filing, however, does not decrease the time required for TTB to review an application, and with the high volume of submissions, TTB has implemented program and system changes to meet the demand for service within available resources.

These changes have helped TTB to manage workloads and start to reduce the average processing time for a label approval. TTB anticipates the planned guidance and system changes will result in improved service times for both label and formula applications by the end of FY 2016.





Product Integrity

Consumer confidence is essential to ensuring that U.S. and world economies perform at their full economic potential. TTB is the federal agency responsible for carrying out provisions of the FAA Act that ensure that labeling and advertising of alcohol beverages provide adequate information to consumers concerning the identity and quality of products. This authority also calls for TTB to prevent misleading labeling or advertising that may result in consumer deception regarding alcohol beverage products.

This consumer protection function falls under TTB's Advertising, Labeling, and Product Safety Program. 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, including the health warning statement, and does 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. Formulas may require statements of process, laboratory analyses, and pre-import letters, all of which also help to ensure that U.S. consumers have full and accurate information about the products they purchase.

TTB confirms compliance with federal product and labeling regulations by reviewing production records through its product integrity investigations and by conducting marketplace sampling to test products for safety as well as container content and label compliance. TTB also reviews advertisements for alcohol beverage products from television, radio, the Internet, and other sources for compliance with federal regulations.

In the event that a food safety or other product integrity issue occurs, TTB responds by working directly with the responsible parties and, as appropriate, shares its findings with other regulatory and enforcement agencies to work in partnership to timely resolve issues.

Modernizing the Alcohol Beverage Label Program

In FY 2015, TTB received nearly 154,000 label applications and more than 14,000 formula applications. The rapid expansion of the alcohol beverage industry, combined with market trends toward formulated products, have contributed to the high volume of applications.

TTB has implemented policy changes since FY 2012 to reduce label and formula applications, issuing guidance to exempt certain malt beverage products from the requirement to obtain a formula approval and expanding the number of changes that industry may make to an alcohol beverage label without a new approval.

These policy changes successfully reduced the volume of label and formula submissions in the short-term without compromising TTB's consumer protection role; however, industry trends have resulted in increased submissions that have offset these reductions. Specifically, efforts to remove label approval requirements reduced the volume of submissions in fiscal years 2013 and 2014, but filings increased 8 percent in FY 2015 to nearly 154,000 applications. Label applications now exceed the historic high reached in FY 2012. Similar efforts in the formula area were implemented in FY 2014, with a published ruling resulting in a nearly 30 percent reduction in malt beverage formula submissions. However, as increases in formula submissions from the spirits and wine industries have since offset these reductions, TTB plans to proceed with guidance and rulemaking beginning in FY 2016 and continuing through FY 2017 to reduce formula submissions across the alcohol beverage commodities.

Volume of Label and Formula Submissions by Commodity

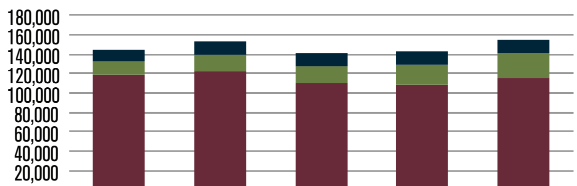
Since 2011, the total number of alcohol beverage label applications has increased approximately 6 percent. This moderate growth in annual submissions during a period of industry expansion can be attributed in large part to TTB's successful intervention strategies to reduce filing requirements in certain low-risk areas. Without these policy changes, TTB was on track to receive nearly 175,000 label applications in FY 2015.

The 8 percent increase in total label applications this year compared to FY 2014 was driven by a 26 percent increase in malt beverage label applications.

In five years, the total number of alcohol beverage formula applications has grown nearly 80 percent. Product innovation and the growth in the number of small brewers and distillers has contributed to the overall increase in formula submissions. The majority of formula submissions are for distilled spirits products and malt beverages. There are also formula requirements for certain types of wines. The policy changes that resulted in a 30 percent reduction in malt beverage submissions between fiscal years 2014 and 2015 were entirely offset by the increased wine and distilled spirtis submissions, which grew 27 percent and 16 percent, respectively, over the same time period.

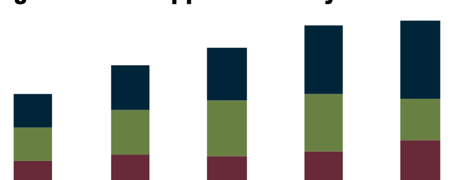
Note: Information presented on formula applications by commodity does not include pre-import or laboratory analysis.

Alcohol Beverage Label Applications by Commodity



	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Distilled Spirits	12,114	13,873	12,389	12,984	12,986
Malt Beverages	13,880	16,425	17,602	20,629	25,398
Wine	119,313	122,443	110,330	108,827	115,483

Alcohol Beverage Formula Applications by Commodity



	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Distilled Spirits	2,170	3,004	3,459	4,539	5,271
Malt Beverages	2,232	2,919	3,733	3,861	2,759
Wine	1,879	2,347	2,183	2,512	3,203

Additionally, the increase in the number of new alcohol beverage producers also influences the timely processing of label and formula applications. New producers often require extensive assistance during the label approval process and frequently submit applications that require correction, both of which add to processing times. In FY 2015, approximately 40 percent of label and formula applications were submitted incomplete or with errors. Given these error rates and the resulting reprocessing of submissions, TTB processed nearly 240,000 label and nearly 18,000 formula applications in FY 2015. As non-compliant applications are essentially doubling processing workloads, TTB will use the findings of its FY 2015 analyses related to reasons that applications are returned to industry for correction to implement system-based compliance checks and provide targeted online guidance over the next several years to increase the compliance of initial label and formula applications.

These workload challenges have prevented progress in improving service delivery in these program areas. Lengthy processing times continue to disrupt the business operations of U.S. beer, wine, and spirits producers and importers, posing a potential barrier to commerce. Given the importance of timely TTB approvals and the negative impact that delays have on U.S. businesses, TTB continues its priority project to modernize its alcohol beverage labeling program. Through updates to federal labeling regulations, improved online guidance, the removal of requirements for label and formula approvals for certain low-risk products, and the development of system enhancements to both COLAs Online and Formulas Online, TTB expects to eliminate current barriers to compliant trade caused by processing delays while maintaining adequate regulatory controls to ensure revenue collection and consumer protection.

Market Review of Label and Product Compliance

After alcohol beverages enter the marketplace, TTB monitors labeling compliance through the Alcohol Beverage Sampling Program (ABSP). The ABSP is a random survey of products in the marketplace to help TTB evaluate marketplace compliance and determine where issues may exist. The Bureau's continued monitoring of product and label compliance through the ABSP assists TTB in evaluating the integrity of U.S. alcohol beverage products, both in the view of U.S. consumers and TTB's international counterparts, which is critical to gaining foreign market access for U.S. exporters.

For each product evaluated under the ABSP, TTB determines if they are fully and accurately labeled (i.e., whether the label accurately reflects the content of the bottle) by reviewing their labels and contents. In reviewing the label, TTB checks for all required 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.

TTB uses the ABSP results to address compliance problems for products that are currently in the marketplace. 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, however, the Bureau conducts field investigations and ensures corrective action is taken on the part of industry members. The most frequent violations in FY 2015 related to discrepancies between the actual alcohol content of certain wine, spirits, and malt beverage products and the alcohol content stated on the label of those products. The complete results of the FY 2015 ABSP will be available on TTB.gov in early 2016.

Ensuring Accurate Product Information for Consumers

TTB worked with its domestic and international counterpart regulators in FY 2015 to resolve several incidents related to mislabeled alcohol beverages that had potential health and safety consequences for U.S. consumers.

In FY 2015, TTB received reports regarding a product in the marketplace, kombucha, that in some instances was not properly labeled as an alcohol beverage. The term "kombucha" generally refers to a fermented beverage produced from a mixture of steeped tea and sugar, combined with a culture of yeast strains and bacteria. TTB collected samples of this product in the marketplace and confirmed that certain kombucha products were not properly labeled as alcohol beverages, as they contained 0.5 percent or more alcohol by volume. If kombucha contains 0.5 percent or more alcohol by volume, the producer is subject to TTB's tax payment and permitting requirements, and the product must be labeled appropriately, including with the health warning statement required on all alcohol beverages. TTB is acting to address these issues and ensure that the products comply with federal law. In its outreach on this issue, TTB created a new kombucha page on TTB.gov. The new content includes frequently asked questions (FAQs) on kombucha, including some that specifically address testing methods to measure the alcohol content of kombucha.

Further, TTB also effectively leveraged its global network of regulators in its efforts to protect consumers and promptly address compliance issues in the international trade of alcohol beverages. In FY 2015, Wine Australia notified TTB of approximately three million liters of misidentified wine shipped from Australia to the United States for bottling and sale in the U.S. Through cooperative efforts, Wine Australia canceled the export license of the responsible Australian company, and TTB intervened with the U.S. bottler to take appropriate action.

Protecting Consumers from Adulterated and Contaminated Products

In administering the Advertising, Labeling, and Product Safety Program, TTB conducts analyses of alcohol beverage products in the marketplace for ingredients or materials whose presence is prohibited or limited. TTB also works with its counterpart U.S. and international agencies to evaluate and address incidents involving potential health hazards related to alcohol beverage products, including the FDA. TTB considers an alcohol beverage found by FDA to be adulterated under the Federal Food, Drug, and Cosmetic Act to be mislabeled under federal alcohol beverage labeling laws.

In FY 2015, TTB worked with industry members on the voluntary recall of several domestic and imported alcohol beverage products, including a wine with glass particles that had fractured from the bottle and a boxed wine product with degraded packaging. In each instance, TTB worked with other agencies and the affected industry members to monitor and confirm resolution of the voluntary recalls, and no adverse public health impacts were reported.

TTB Hosts Chinese Delegation

In October 2015, TTB hosted a delegation from the People's Republic of China at the TTB National Laboratory Center in Beltsville, Maryland.

Chinese officials from the General Administration of Quality Supervision, Inspection, and Quarantine (AQSIQ) met with TTB and representatives from the U.S. Department of Commerce and the U.S. Department of Agriculture. AQSIQ is the Chinese customs agency charged with enforcing product standards and food safety of imports and exports, and has worked closely with TTB on a variety of issues in recent years.

The talks focused on strengthening the AQSIQ-TTB relationship under a Memorandum of Understanding (MOU) signed in 2007. In this MOU, TTB and AQSIQ agreed to establish a consistent channel for information exchange regarding the import and export of alcohol and tobacco products.

During the meeting, AQSIQ and TTB agreed to increase information sharing between their respective laboratories by sharing new or innovative testing procedures, and to expand collaboration with respect to the laboratory analysis of tobacco products. This will help standardize testing between the two countries and decrease uncertainties for producers who import and export products between the United States and China. The group also agreed to pursue an electronic export certificate program to ease paperwork burdens, prevent document forgery, and combat product counterfeiting.

Pictured above is Dr. Abdul Mabud, SSD Director, with AQSIQ representatives in the laboratory's instrument room.

Also in FY 2015, TTB worked with China's General Administration of Quality Supervision, Inspection, and Quarantine to verify that alcohol beverage products produced in China containing Viagra or Sildenafil had not beenexported to the United States. Through this cooperative effort, TTB was able to protect U.S. consumers from a potential health hazard.

Market Integrity

TTB is 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, ranging from investigations of industry trade practices to engaging foreign counterparts to keep the channels of commerce open and operating in compliance with U.S. and international laws.

Promoting Fair Competition in the U.S. Marketplace

As part of its Trade Facilitation Program, TTB's FAA Act trade practices program investigates acts that violate federal law relating to alcohol beverage marketing practices. TTB enforces the FAA Act provisions that provide for fair competition in the alcohol beverage trade by prohibiting certain anti-competitive practices. Regulated trade practices include restrictions on exclusive outlets, tied house arrangements, commercial bribery, and consignment sales. Unlawful trade practices threaten fair competition by undermining equal access to the marketplace, precluding healthy small business activity and limiting consumer choices by allowing influential producers to unlawfully interfere with the supply chain.

In FY 2015, TTB accepted a $450,000 offer-in-compromise from MillerCoors, LLC for alleged consignment sales violations under the FAA Act stemming from its Miller Fortune Buy-Back Program. Under this program, MillerCoors guaranteed participating wholesalers and distributors that it would buy back unsold and out-of- date Miller Fortune product if they fulfilled certain standards related to distribution, speed to market, and forecasting/ordering compliance. Under the consignment sales provisions, the FAA Act prohibits the sale or purchase of alcohol beverage products with the privilege of return. TTB previously issued guidance in 2012 to address this type of program arrangement through TTB Ruling 2012-4, Freshness Dating and Allowable Returns of Malt Beverages under the FAA Act.

TTB also continued its evaluation of certain industry practices around the provision of shelf plans and schematics that may violate the tied house provisions of the FAA Act. In recent years, evolving industry practices and developing technologies have changed how shelf schematics are designed and offered to retailers. Shelf schematics in the current market are often complex computer-generated models of entire beverage sections that are increasingly offered in combination with shelf management programs that include additional related services, many of which could be considered unlawful inducements under the FAA Act.[9]

Facilitating U.S. Penetration into Foreign Markets

TTB has been actively engaged with U.S. trade officials in facilitating fair and open trade in alcohol beverages to support new opportunities for U.S. businesses in overseas markets. U.S. exports of alcohol beverages totaled approximately $3.5 billion in 2014, the most recent full year of data available. In line with increases in overall export volume, alcohol beverage exports increased approximately 20 percent since

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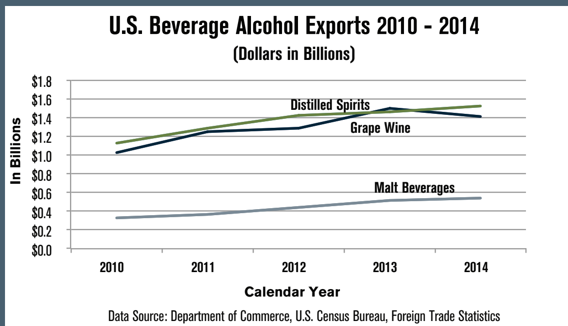
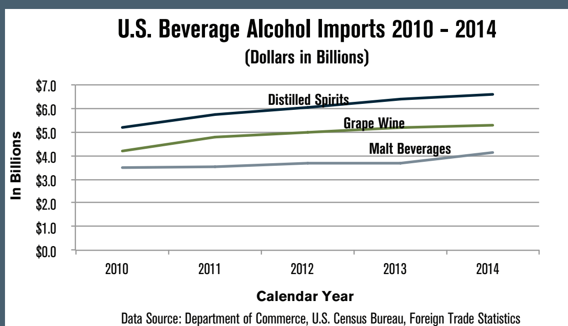
9 Examples of activities that are considered unlawful inducements under the FAA Act include furnishing, giving, renting, lending, or selling to the retailer any equipment, fixtures, signs, supplies, money, services, or other things of value. The regulatory exceptions to this provision are limited to certain promotional support items, such as product displays.

Alcohol Beverage Imports and Exports





The value of U.S. import trade increased in 2014, the most recent full year of data available, an increase of 5 percent since 2013. Both wine and distilled spirits experienced moderate increases, with the malt beverage category increasing 12 percent over the prior year. The five-year trend indicates continued U.S. demand for imported products.

Overseas demand for the products TTB regulates remains high. The value of U.S. exports of all alcohol beverages totaled approximately $3.5 billion in 2014, consistent with the prior year. U.S. exports of distilled spirits totaled more than $1.5 billion, which represents a 5 percent increase from 2013. Over the same period, U.S. exports of beer also increased by 4 percent, to $538 million. Meanwhile, U.S. exports of wine decreased 6 percent, to $1.4 billion. With the exception of wine in 2014, exports of U.S. alcohol beverages have increased in each year of the previous five years.

TTB has undertaken a variety of efforts to directly influence this trend through its partnership with USTR. These include facilitating the reduction of export certification requirements imposed by foreign countries, providing technical advice for trade agreements that facilitate trade and suspend trade barriers, and educating industry on U.S. import and export requirements.

2011. The majority of these exports are spirits and wine products, although growth has also been notable for malt beverages in recent years.

As the technical expert in these commodities, TTB seeks to promote U.S. exports by facilitating industry compliance with foreign requirements and by working with foreign regulators to address barriers that block market access for U.S. products. For example, many major markets abroad require export certifications to accompany shipments of alcohol beverages before a product may enter foreign commerce.

TTB's workload in processing export certificates increased by 73 percent between fiscal years 2009 and 2013, reflecting increased overseas demand for U.S. spirits and wine, and was on track to double by FY 2014. In FY 2015, through its international outreach and negotiations, TTB continued its efforts to eliminate or reduce burdensome requirements and routine certifications. As a result of this ongoing initiative, TTB has reduced the number of certifications issued to approximately 12,000, as compared to more than 15,000 just two years ago.

Toward this end, TTB led the development of a model wine export certificate to replace several existing export certificates currently required by Asia-Pacific Economic Cooperation (APEC) economies for imported wine products. Given that 66 percent of the wine export certificates issued by TTB in FY 2015 were for exports intended for APEC economies, this effort will significantly reduce trade barriers and the associated costs of trade, in addition to reducing the workload related to issuing these certificates. Following formal adoption by APEC, TTB plans to publish on TTB.gov the generic export certificate as a template for use by all countries that import wine produced in the United States.

Preventing and Addressing Barriers to Trade

The TTB Trade Facilitation Program also includes identifying and addressing barriers to trade in the international marketplace. TTB is the principal technical expert for the Office of the United States Trade Representative (USTR) and other federal agencies in the administration of U.S. alcohol laws, regulations, and policies, and coordinates with these agencies as appropriate in responding to alcohol beverage trade issues. TTB provides expert reviews of foreign regulatory proposals impacting the alcohol trade to identify and assess the impact of potential trade barriers for U.S. alcohol exporters. The USTR estimates that, in any given year, up to 20 percent of new barriers to trade relate to alcohol beverages. TTB plays a crucial role in the early identification and resolution of these issues.

Specifically, in FY 2015, TTB continued its efforts to prevent new non-tariff trade barriers related to alcohol beverages by participating in the World Trade Organization process for reviewing proposed, new, and amended technical regulations. In FY 2015, TTB addressed 20 issues related to alcohol beverage regulations or standards proposed by various governments, including major markets for U.S. products such as the European Union, Canada, Mexico, India, Brazil, and China. Notably, TTB is leading the U.S. government response to China's new food safety law (Decree 145), which requires the registration of foreign manufacturers of imported foods. Wine, seafood, and dairy products are among the first commodities that will be required to register in China under the new law.

In addition, TTB continued to participate in the U.S. delegation to the Codex Alimentarius Commission (Codex) committee meetings to protect U.S. interests as other countries and organizations seek to initiate or adopt standards and guidelines that could prove burdensome and unnecessary for U.S. producers of alcohol products. Codex is a United Nations organization that develops international food standards and guidelines. TTB continued its engagement on key issues under consideration by Codex committees, including establishing standards for the labeling of alcohol products in the areas of mandatory date marking and organically produced foods, which may include wine in the future.

TTB also continued its efforts through Codex to add common winemaking additives to the General Standards for Food Additives (GSFA). Many developing countries look to the GSFA to set national legislation and do not allow additives that are not listed in the GSFA. This reliance on the GSFA has resulted in trade barriers for U.S. alcohol beverages entering certain markets, and TTB's work in this area will ensure export markets remain open to U.S. businesses.

Supporting International Trade Agreements for Alcohol Beverages

TTB also works to address barriers in the international marketplace by participating with other federal agencies in the negotiation of international trade agreements related to alcohol products on behalf of the U.S. government. Highlights in FY 2015 include:

- Promoted U.S. export trade in wine through the APEC Wine Regulatory Forum. TTB played a significant role in advancing the goals of four public-private working groups formed to reduce barriers to trade related to export certificates, increase transparency of regulatory requirements, improve product testing and risk controls, and establish pesticide maximum residue levels. In addition to working to develop a model wine export certificate, TTB contributed to progress in the working groups' efforts through: 1) completing the early stages of a database compendia of regulatory requirements for APEC participants, 2) conducting the first iteration of a laboratory ring test to promote consistency and accuracy in analytical testing of key wine characteristics, and 3) developing a guideline for the harmonization of pesticide maximum residue levels in imported foods within APEC economies. Next steps in each area will be determined at the November 2015 APEC WRF meeting.

- Provided technical advice on the Wine and Spirits Annex to the chapter of the Trans-Pacific Partnership Agreement (TPP) related to technical barriers to trade. The Annex aims to reduce barriers to trade in the regulation of wine and spirits.
- Contributed to the negotiations of the Transatlantic Trade and Investment Partnership (TTIP), a comprehensive free trade agreement between the U.S. and the EU. The EU is the top export market for U.S. wine, and it is the largest source of imported wine in the United States. As a result, maintaining a free flow of trade between the two economies is vital to U.S. economic growth. USTR sought TTB's technical advice on a variety of alcohol beverage topics in FY 2015, and TTB will continue to assist the USTR on TTIP to ensure representation of U.S. stakeholders' interests in FY 2016.
- Facilitated the World Wine Trade Group (WWTG) meeting in April 2015, which reviewed topics such as the WWTG's status in international standards organizations and commercial samples, which are used to solicit sales and are not intended for the general market. TTB will continue to work with USTR and its WWTG counterparts in FY 2016 to further the group's key objectives, including outreach to strategic markets and the minimization of technical trade barriers.

Voluntary Compliance

In its Collect the Revenue and Protect the Public programs, TTB promotes voluntary compliance by providing clearer regulatory standards and guidance, encouraging use of its e-Gov filing systems, and supporting industry members through education and outreach efforts. TTB employees also provide industry members and states with direct assistance on specific needs or guidance on broader issues affecting the regulated commodities.

Supporting Compliance through Industry Outreach

The industries regulated by TTB are growing, and obtaining voluntary compliance requires that TTB educate both new and existing industry members on federal requirements. TTB has reshaped its approach to outreach in recent years to operate a voluntary compliance program with limited resources by taking advantage of technological advances. Although TTB continues to attend select industry-sponsored seminars and workshops to provide information and answer questions on federal laws and regulations, TTB increasingly relies on online training to reach industry members.

In FY 2015, TTB improved online access to the resources that industry members need to incorporate compliance as part of their business models. Through its enforcement efforts and call centers, TTB discovered that many industry members may not be aware of everything needed to comply with TTB regulations. New online tools released in FY 2015 provide step-by-step guide on industry member responsibilities related to original qualification; reporting changes after permit approval; recordkeeping; filing operational reports, tax returns, and payments; and labeling and formulation.

Specifically, TTB released three new or updated sections on TTB.gov:

- **Getting Started in the TTB-Regulated Industry** – An updated series of tutorials that walk prospective industry members through the steps for getting approval to operate a TTB-regulated business.
- **Maintaining a TTB-Regulated Business** – A new online tool that provides guidance on how to maintain compliant operations once in business.
- **Business Central** – A new one-stop resource for conducting business transactions with TTB.

Using Data to Direct Improved Guidance

TTB regularly surveys its TTB.gov users to measure visitor satisfaction and uses this data, as well as other Web analytics, to develop enhancements to help improve industry understanding of TTB's tax and regulatory requirements. In FY 2015, TTB augmented this information with data derived from its call centers and help desks to improve the information provided on TTB.gov. This analysis resulted in updates to online content, including information on personal importation, home distilling, and nano- or craft brewing.

TTB also issued its second annual Web-based customer survey to garner feedback from industry members on several areas, including the quality and availability of guidance. Approximately 5,000 industry members responded to the survey, with some notable findings relating to the complexity of TTB's regulations and industry dissatisfaction with processing times. In FY 2016, TTB intends to use this data in developing initiatives to improve overall compliance and customer interactions with TTB.

Streamlining Regulations to Reduce the Compliance Burden

TTB also seeks to promote voluntary compliance through clear and unambiguous regulations and guidance. TTB has an ongoing regulations modernization effort underway to ensure that its regulations and enforcement strategies keep up with changes in the industries that it regulates. In FY 2015, TTB made progress in updating its regulations to reflect current industry practices and achieve efficiencies for the industry and TTB.

TTB Outreach to Cider and Mead Makers

In line with recent increased interest in cider and mead, TTB improved its outreach and guidance on these products in FY 2015 to help existing or prospective industry members understand the federal requirements related to these products. Generally, the terms "cider" and "hard cider" refer to wine fermented from apples (including apple juice or concentrate). The term "mead" refers to wine fermented from honey, rather than grapes or other fruit.

In February 2015, TTB participated in the fifth annual Cider Conference (CiderCon) to share information with this rapidly growing segment of the alcohol beverage industry on permitting, production, labeling, and tax requirements. Many of the approximately 1,000 conference attendees were small and medium-sized enterprises that needed assistance in understanding the governing statues and regulations.

To provide industry with additional information on these increasingly popular alcohol beverage products, TTB published on TTB.gov sets of FAQs addressing topics related to cider and mead (honey wine). The FAQs help industry members to understand how TTB defines these products, the labeling rules for each beverage, the tax rates that apply to each beverage, and rules regarding their importation.

TTB is currently engaged in rulemaking to consolidate the required distilled spirits plant (DSP) monthly operations reports. TTB is preparing to issue a supplemental proposed rulemaking that will propose to consolidate the current four operational report forms, which would be filed on a monthly or quarterly basis. TTB undertook this project to address numerous concerns and desires for improved reporting by distilled spirits industry members and to achieve efficiencies by reducing the number of monthly plant operations reports that DSPs must complete and file, and that TTB must process. TTB intends to continue this rulemaking project in FY 2016.

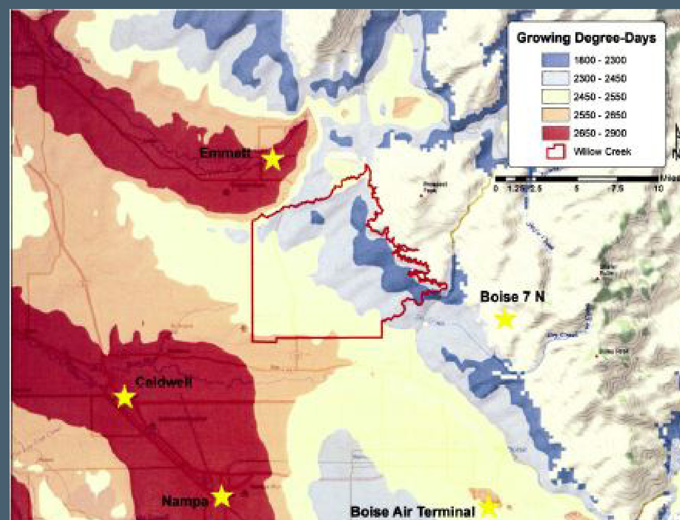
In FY 2015, TTB also continued a rulemaking project to revise the specially denatured alcohol (SDA) and completely denatured alcohol (CDA) formula regulations. SDA and CDA are widely used in the U.S. fuel, medical, and manufacturing sectors. The industrial alcohol industry is far larger than the beverage alcohol industry in both size and scope, and it continues to grow in the U.S. TTB issued a proposed rulemaking in June 2013 that would eliminate outdated SDA formulas from the regulations, reclassify some SDA formulas as CDA, and issue new general-use formulas for products made with SDA to reduce the number of products that require pre-approval by TTB. TTB estimates that this effort will decrease the number of formula submissions required from industry by roughly 80 percent. These changes would remove unnecessary regulatory burdens and update the regulations to align them with current industry practice. TTB expects to publish a final rule in FY 2016.

Finally, TTB intends to pursue rulemaking to incorporate formula standards for nonbeverage products into the regulations to decrease burdens for industry and TTB, which should result in improved approval times for industry. The proposed amendments would streamline TTB's process for approving nonbeverage product formulas, which is designed to ensure that approved products are unfit for use as alcohol beverages, by eliminating the need for certain nonbeverage formula submissions and approvals.

American Viticultural Areas

An American Viticultural Area (AVA) is a delimited grape-growing region having a viticulturally significant 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.



Map of the growing degree-days of the Eagle Foothills AVA in Idaho proposed in FY 2015.

During FY 2015, TTB published 16 AVA-related documents. Of those 16 documents, six were final rules: One final rule established 11 new AVAs within the existing Paso Robles AVA in California (Adelaida District, Creston District, El Pomar District, Paso Robles Estrella District, Paso Robles Geneseo District, Paso Robles Highlands District, Paso Robles Willow Creek District, San Juan Creek, San Miguel District, Santa Margarita Ranch, and Templeton Gap District AVAs); two final rules established individual AVAs in California (Squaw Valley–Miramonte and Fountaingrove District); one final rule established a new AVA in Oregon (The Rocks District of Milton–Freewater); one final rule established a new AVA and realigned two existing AVAs in California (Eagle Peak Mendocino County and Realignment of Mendocino and Redwood Valley AVAs); and one final rule expanded an existing AVA in California (Fair Play AVA).

As a result of these final rules, at the end of FY 2015, TTB and its predecessor agency, the Bureau of Alcohol, Tobacco and Firearms, have established a total of 230 AVAs.

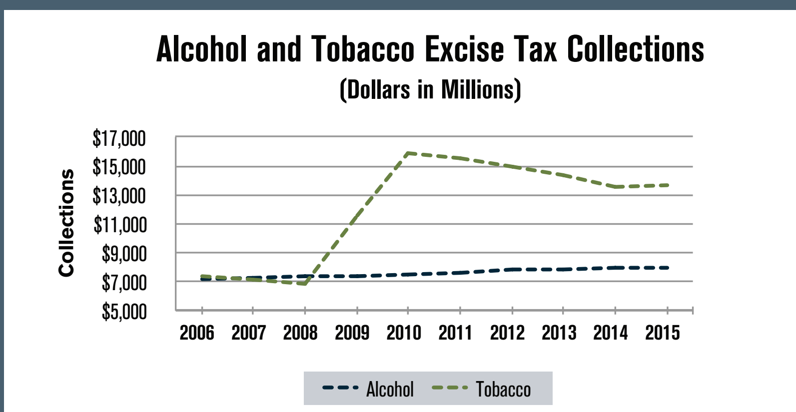
Financial Highlights

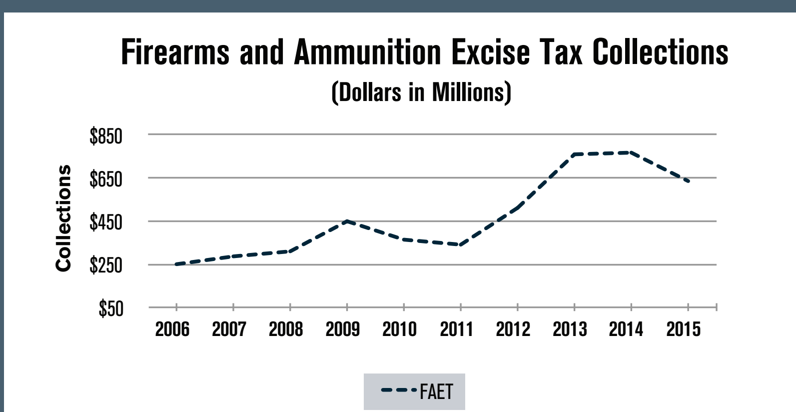
Federal Excise Tax Collections

TTB collects excise taxes from the alcohol, tobacco, firearms, and ammunition industries. In addition, the Bureau collects Special Occupational Tax (SOT) from certain tobacco businesses. During FY 2015, TTB collected $22.3 billion in taxes, interest, and other revenues.

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

FY 2015 Excise Tax Collections	
Alcohol	$7,997,467,000
Tobacco	$13,620,497,000
FAET	$638,518,000
SOT	$288,000
FST	$2,444,000
Other	$7,000
Total	$22,259,221,000





TTB's tax collections for domestic alcohol beverages have shown a relatively stable rising trend for several years. The tax for imported alcohol beverages is collected by U.S. Customs and Border Protection.

Tobacco tax revenues in FY 2015 remained relatively flat from the prior year, but are projected to continue to decrease based on consumption patterns and consumer trends toward lower taxed alternative products.

FAET revenues decreased by 17 percent from the prior year. Since TTB assumed the responsibility for administering the FAET in 2003, collections have increased from $193,414,000 to $638,518,000, a 230 percent increase.

Refunds and Other Payments

During FY 2015, TTB issued $685 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. TTB also issues cover-over payments to Puerto Rico and USVI for "other rum," which is rum imported into the United States from other than Puerto Rico or the USVI.[10]

During FY 2015, cover-over payments totaled $350 million, with $343 million paid to Puerto Rico and $7 million paid to USVI. Year-to-year, cover-over payments can vary depending on the rate of payments, which is established by statute. The Department of the Interior also issues cover-over payments for imported USVI rum to the USVI.

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 2015, drawback payments totaled $307 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 the TTB laboratory for analysis and approval of the nonbeverage claim. To assess drawback claims, the TTB laboratory analyzed approximately 13,000 formulas and samples in FY 2015.

FY 2015 Excise Tax Refunds	
Alcohol and Tobacco Excise Tax Refunds	$27,776,000
Cover-over Payments , Puerto Rico	$343,429,000
Cover-over Payments , Virgin Islands	$7,093,000
Drawbacks on MNBP Claims	$306,640,000
Interest and Other Payments	$151,000
Total	**$685,089,000**

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

FY 2015 Bureau Budget

Direct Appropriations (Salaries & Expense Account)

TTB's budget authority under the 2015 Consolidated and Further Appropriations Act was $100 million. This amount included $3 million for the costs of criminal enforcement activities, including special law enforcement agents, for targeting tobacco smuggling and other criminal diversion activities. Since FY 2011, TTB has entered into an interagency agreement with the Internal Revenue Service Criminal Investigations division to deploy special agents to conduct criminal investigations into violations of the tax laws TTB enforces. The FY 2015 enacted appropriation authorized 473 full-time equivalent (FTE) positions for TTB.

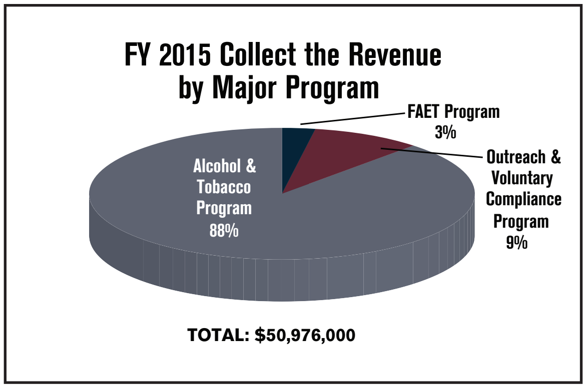
Offsetting Collections and Reimbursables

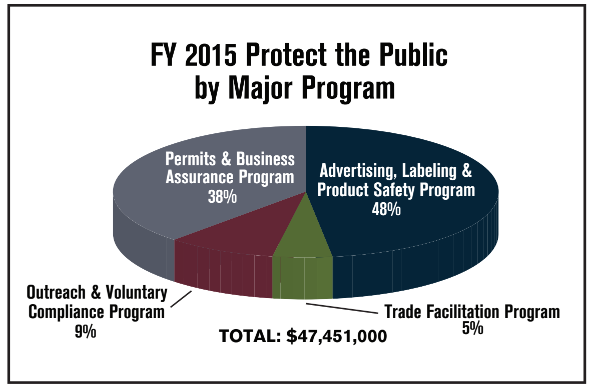
During FY 2015, TTB had $7.1 million in current year spending authority from offsetting collections and reimbursable activity. Of that amount, TTB incurred obligations and expenditures of $6.1 million. The funds originated from multiple sources, including:

- Recoveries from the operation of the cover-over program and other enforcement activities in Puerto Rico;
- Funding from the Department of the Treasury's Executive Office for Asset Forfeiture (TEOAF) mandatory account to cover investigative expenses;
- Reimbursement from the FDA for laboratory services;
- Reimbursement from the USDA for technical assistance; and
- Reimbursement from the Community Development Financial Institutions Fund (CDFI) for information technology support services.

FY 2015 Offsetting Collections and Reimbursables		
	Authority	Actuals
Offsetting Collections		
Puerto Rico Cover Over	$3,300,000	$3,028,000
Reimbursables		
Department of Justice, Bureau of Alcohol,Tobacco, Firearms and Explosives (ATFE)	$12,000	$-
Treasury Executive Office for Asset Forfeiture - Mandatory Account	$560,000	$302,000
Community Development Financial Institutions Fund (CDFI)	$3,000,000	$2,745,000
Food and Drug Administration (FDA)	$150,000	$39,000
U.S. Department of Agriculture (USDA)	$50,000	$18,000
FY 2015 Offsetting Collections and Reimbursables	$7,072,000	$6,132,000

Obligations and Expenditures by TTB Program





Audit of TTB's FY 2015 Financial Statements

The Department of the Treasury is one of 23 federal agencies that are required by law to produce annual audited financial statements. TTB's financial activities are an integral part of the information reported on by the Treasury Department.

TTB's Annual Report includes audited FY 2014 and FY 2015 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.

Management Assurances

TTB received an unmodified audit opinion following the independent, full-scope financial statement audit that was conducted for FY 2015. TTB provides reasonable assurance that the objectives of the Federal Managers' Financial Integrity Act were achieved in FY 2015, and that the Bureau's financial management systems are in substantial compliance with the Federal Financial Management Improvement Act. 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 2015, 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."

Bureau Challenges

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

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Part II:
Program Performance Results

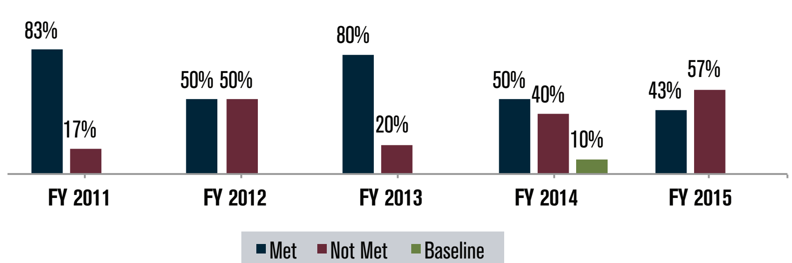
Performance Overview

TTB reports its performance through a suite of key performance measures that represent its ability to effectively administer the tax code and facilitate commerce through prompt, reliable service delivery. In FY 2015, TTB met or exceeded the performance targets for three of its seven measures. In three of the four measures where TTB's results fell short, performance neared the annual target, with TTB achieving approximately 90 percent of its targeted performance level.

Based on external factors and the results achieved this fiscal year, TTB reviewed its performance goals and set FY 2016 targets that reflect workload projections, resource constraints, planned business process improvements, and anticipated impacts from technology enhancements. To meet its performance goals in FY 2016, TTB will implement an aggressive strategic agenda that integrates new technology, streamlining initiatives, and targeted efforts in both outreach and enforcement. All performance results are subject to management review and periodic audit by the Department of the Treasury.

FY 2015 Performance Measure Status	
Performance Targets Met	3
Performance Targets Not Met	4
Total Performance Measures	7

Performance Measure Trends FY 2011 - FY 2015



Summary of Collect the Revenue Performance

Measure	FY 2011 Actual	FY 2012 Actual	FY 2013 Actual	FY 2014 Actual	FY 2015 Target	FY 2015 Actual	FY 2016 Target	FY 2015 Target Met?	% of Target Reached
Amount of Revenue Collected Per Program Dollar [1/]	468	449	457	457	400	**437**	400	Y	109%
Percent of Voluntary Compliance from Large Taxpayers in Filing Tax Payments Timely (In Terms of Revenue)	95	92	92	90	92	**88**	92	N	96%

1/ FY15 Actual revised since TTB reported its performance in the Treasury Agency Financial Report

Performance Discussion

In FY 2015, TTB met one of its two annual targets for the performance measures under the Collect the Revenue mission. Taken together, TTB's measures of the Amount of Revenue Collected per Program Dollar and the Percent of Voluntary Compliance from Large Taxpayers in Filing Payments Timely demonstrate the effectiveness and efficiency with which TTB operates its revenue collection function. Achieving results for both measures will be supported by the strategic application of technology to streamline internal and external processes and an effective tax enforcement presence that leverages intelligence data from a variety of government and commercial sources as well as interagency partnerships with counterpart enforcement agencies.

Improve Efficiency of Tax Collection

The Amount of Revenue Collected per Program Dollar measure uses annual collections figures and the actual expenditures and obligations for collection activities to quantify the efficiency of the TTB tax collection program. In FY 2015, TTB achieved a return on investment of $437 for every program dollar spent on collection activities, which exceeded its annual performance target of $400. Effective enforcement combined with process improvements and streamlining efforts should contribute to continued positive returns on the investment in TTB, contributing to Treasury's goal of a modern and effective tax system.

In setting its FY 2016 performance target, TTB examined historical collections trends across each of its regulated commodities, as well as other predictors that influence consumer behaviors. Specifically, significant shifts in consumption patterns, product manufacturing, and trade will continue to impact federal revenues in the years ahead. The 2009 changes to the federal tax rates have resulted in increased tobacco tax collections by TTB, although the amount of the increase has decreased steadily since FY 2010, the first full fiscal year following the tax rate increases. In accounting for these types of marketplace shifts, TTB established a targeted performance level of 400:1 for FY 2016.

In FY 2016, to meet its performance target of $400, TTB will continue to improve efficiencies and results in its tax enforcement program by improving its systems and processes related to tax verification. On the front end, TTB will continue to evaluate and develop options to increase automation in the detection, notification, assessment, and collection of excise taxes to preserve staff time for substantive tax analysis.

In FY 2017, TTB also intends to complete its review of all operational reports and tax returns required of the businesses it regulates as part of its ongoing effort to streamline its information collections. This initiative has the dual purpose of ensuring that TTB has the information required for effective tax and regulatory enforcement and eliminating unnecessary reporting burdens for U.S. companies.

On the back end, TTB will continue to develop and build risk models based on multiple data sources to identify high-risk activity or taxpayers for audit and investigation. Continuous refinements to these models and sound intelligence enable TTB to efficiently deploy its limited enforcement resources. A primary focus for TTB tax enforcement continues to be exported alcohol and tobacco products. According to TTB data, non-taxpaid removals of alcohol and tobacco products from bonded premises for export present an annual excise tax exposure of about $380 million and $1 billion, respectively. In FY 2015, in partnership with CBP and Immigration and Customs Enforcement, TTB expanded its intelligence and investigative techniques to make significant inroads into identifying tax evasion schemes that involve the diversion of non-taxpaid products intended for export. TTB's enforcement efforts related to tobacco export warehouses, which are permitted by TTB, have identified $41 million in additional tax liabilities and resulted in more than $1 million in collections to date.

Increase Voluntary Compliance from Taxpayers

Fostering voluntary compliance among taxpayers is a primary tax administration strategy for TTB. The Percent of Voluntary Compliance from Large Taxpayers in Filing Tax Payments Timely is a key performance metric that shows the rate of compliance by large taxpayers (i.e., those that pay more than $50,000 in annual taxes) in voluntarily filing their tax payments on or before the scheduled due date. In FY 2015, TTB achieved a compliance rate of 88 percent from its large taxpayers, which fell below the performance target of 92 percent. The declining compliance rate in recent years is due to improvements in TTB's tax reconciliation and enforcement functions related to identifying late, missing, and erroneous tax returns and payments. These efforts often result in the late filing of tax returns that otherwise would have remained unfiled. The additional late-filed returns have the effect of reducing the reported voluntary compliance rate. TTB anticipates that taxpayers targeted by enforcement efforts will begin filing timely returns in future years, and that, over time, reported voluntary compliance rates will increase.

TTB expects to meet its FY 2016 performance target of a 92 percent voluntary compliance rate for its large taxpayers through complementary strategies that focus on enhancing electronic filing and payment options to enable taxpayers to file complete, accurate, and timely tax returns and payments; improving online guidance, particularly for the large number of newly permitted industry members; and maintaining an enforcement presence to encourage voluntary compliance. Moving forward on all three fronts will ensure that TTB strikes the appropriate balance between supporting new businesses in establishing compliant operations while addressing the high-risk activity that undermines lawful business activity.

Summary of Protect the Public Performance

Measure	FY 2011 Actual	FY 2012 Actual	FY 2013 Actual	FY 2014 Actual	FY 2015 Target	FY 2015 Actual	FY 2016 Target	FY 2015 Target Met?	% of Target Reached
Percent of Electronically Filed Permit Applications	n/a	62	70	79	82	**84**	87	Y	102%
Percentage of Permit Applications Processed within Service Standards	n/a	61	50	58	85	**47**	85	N	55%
Average Number of Days to Process an Original Permit Application for a New Alcohol or Tobacco Business	77	69	81	84	DISC	**DISC**	n/a	n/a	n/a
Customer Satisfaction Rate with TTB Permitting Process	n/a	n/a	n/a	BASE	80	**76**	80	N	95%
National Revenue Center Customer Service Survey Results	90	84	DISC	DISC	DISC	**DISC**	n/a	n/a	n/a
Percent of Electronically Filed Label and Formula Applications	84	88	90	93	94	**94**	95	Y	100%
Percentage of Alcohol Beverage Label and Formula Applications Processed within Service Standards	n/a	83	49	67	85	**75**	85	N	88%
Percent of Electronically Filed Certificate of Label Approval Applications	88	91	92	94	DISC	**DISC**	n/a	n/a	n/a
Percentage of Importers Identified by TTB as Operating without a Federal Permit	14	13	11	15	DISC	**DISC**	n/a	n/a	n/a

Key: DISC - Discontinued and BASE - Baseline

Performance Discussion

In FY 2015, TTB met two of its five annual targets for the performance measures under its Protect the Public mission. TTB reports on its success in meeting the Department's objective to facilitate lawful commerce and TTB's goal to ensure consumer protection through five principal performance measures, revised in FY 2015 to increase their utility as management tools and reflect a renewed focus on customer experience in receiving required services from TTB. The new measures will help TTB to monitor the degree to which it is meeting the service standards it establishes for permit, label, and formula applications, the impact that electronic filing initiatives are having on improved service delivery, and the level of satisfaction that prospective industry members have with TTB's permitting process. TTB's strategies to achieve its performance targets for these measures include a combination of streamlining internal processes, implementing enhancements to online filing systems, and providing clearer guidance to industry members.

Improve Efficiency and Effectiveness of Permitting Process

TTB protects consumers by screening permit applicants to ensure only qualified persons engage in the alcohol, tobacco, firearms, and ammunition industries. For this purpose, in FY 2015, TTB processed approximately 7,300 original and 19,500 amended permits, performing investigations into high-risk applicants to meet TTB's business integrity objective. TTB monitors its timeliness in processing permit applications through its measure of the Percentage of Permit Applications Processed within Service Standards. This measure indicates how many customers are receiving service levels that fall within the communicated standards, rather than reporting an average processing time that may or may not represent the typical customer experience. 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. For this measure, TTB establishes an annual service standard based on anticipated workload volume and resources. In FY 2015, TTB met its 75-day service standard for 47 percent of original permit applications. The increased volume in the most complex application types, in addition to backlogs at the approval stage due to resource constraints, caused processing times to increase, particularly in the latter half of the fiscal year. Going forward, TTB intends to meet its annual performance target of 85 percent for timely processed permit applications through a combination of industry outreach to promote electronic filing, streamlining its internal procedures, and ongoing system enhancements.

According to its measure of the Percent of Electronically Filed Permit Applications, which tracks the e-filing rate for new business applications, TTB has made substantial progress in a short time, with 84 percent of permit applications received via Permits Online. To meet its FY 2016 target of 87 percent, TTB will continue to promote use of Permits Online by all permit applicants, including through online guidance and training. Even as e-filing rates increase, however, TTB has not achieved a commensurate reduction in processing times for permits due, in part, to the high volume of applications. In recent years, the number of new permit applications has increased in line with rapid industry growth, making it difficult to maintain service levels. Between 2011 and 2015, the number of original permit applications received has increased 25 percent, primarily due to growth in the small beverage alcohol producer and alcohol wholesaler segments.

To realize improvements to service delivery, TTB is engaged in a priority project to improve its business qualification program. In FY 2015, as part of this multi-year endeavor, TTB focused on both improvements to Permits Online as well as its internal processes related to business qualification. Combined, these efforts should reduce processing times while continuing to ensure that TTB issues permits to only qualified applicants. In FY 2015, TTB began to update the system's business rules and customer support features to help prospective industry members submit complete and accurate information on their permit application; these updates will continue through FY 2017. TTB has found that as few as 23 percent of applicants filing for a permit correctly complete the application without TTB assistance. By receiving more correct and complete applications, TTB can reduce the time required to return applications for correction and review corrected submissions, thus reducing the time from application to permit issuance.

Further, system enhancements that began in FY 2015 will improve the ease of amendment filing for existing Permits Online users and enable the approximately 60,000 TTB permittees who originally filed a paper permit application to file for amendments to their permit through Permits Online. As TTB receives approximately 20,000 permit amendments annually, this project will result in efficiencies for both TTB and the businesses it serves through increasing the rate of electronic filing by industry and improving processing times.

In addition to the workflow improvements associated with the above system changes, TTB will continue to update its procedures used to screen permit applicants, adding new data sources to its risk models and improving the risk criteria used to vet applicants for suitability to hold a federal permit in the alcohol and tobacco industries. Increased focus on risk modeling and statistical sampling will help to ensure that TTB is permitting only qualified applicants, while also managing workloads and improving service delivery. With these changes, TTB anticipates achieving sustained reductions to its permit application turnaround time in FY 2017.

Increase Customer Satisfaction with TTB Service Delivery

TTB also measures its performance in its permitting function by surveying the businesses that apply for a TTB permit. TTB monitors the Customer Satisfaction Rate with TTB's Permitting Process by using an e-mail survey to assess how satisfied businesses are when applying for a permit through Permits Online. Satisfaction rates in FY 2015 were slightly below the annual target of 80 percent, with 76 percent of applicants filing for an original permit satisfied with the application process, including the level of service received and timeliness of TTB's response. The system enhancements rolled out in FY 2015 should result in improved satisfaction rates. In addition to enhanced help features, these upgrades also addressed bottlenecks in the permit approval process, which should decrease processing times and increase satisfaction rates. In FY 2016, to achieve its performance target of 80 percent, TTB will continue to implement system enhancements and process improvements to improve customer experiences with the system and improve the online guidance available to permit applicants. TTB will also seek to improve the level of service provided to customers seeking live assistance with the permit application process via TTB's call center.

Improve Efficiency and Effectiveness of Alcohol Beverage Label Processing

TTB protects U.S. consumers by ensuring that the alcohol beverage products sold at retail outlets are properly labeled and comply with federal production standards. In FY 2015, TTB received nearly 154,000 label applications and more than 14,000 formula applications. The rapid expansion of the alcohol beverage industry combined with market trends toward formulated products have contributed to the high volume of applications. Recent policy changes intended to reduce label and formula applications without compromising TTB's consumer protection role successfully reduced the volume of label and formula submissions in the short-term; however, industry trends have resulted in increased submissions that have offset these reductions.

These workload challenges have prevented TTB from making sustained progress in improving service delivery in this area. Lengthy processing times continue to disrupt the business operations of U.S. beer, wine, and spirits producers and importers, posing a potential barrier to commerce. Given the importance of timely TTB approvals and the negative impact that delays have on U.S. businesses, TTB is monitoring 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. In FY 2015, TTB met its service standards of 30 days for a COLA and 45 days for a formula approximately 75 percent of the time, with new businesses waiting three months on average from the time they filed for a formula approval to being able to bottle and distribute a new product. In FY 2015, TTB made progress in meeting its service standard for label approvals, with 80 percent of label approvals meeting the 30-day service standard; however, performance in timely processing formula approvals remains a challenge, with TTB meeting the 45-day service standard just 15 percent of the time.

For FY 2016, TTB has established a target of 85 percent for the percentage of label and formula applications that meet the established service standards. TTB expects to maintain the 30-day standard for COLAs and 45-day standard for formulas in FY 2016. To meet the performance target, TTB will continue to focus on revising and updating its policies and improving industry guidance to facilitate the compliance of initial applications and reduce overall submission volume. TTB intends to proceed with its labeling modernization project, which will update and streamline the labeling regulations to reflect current TTB policy and modern industry practices. TTB will also pursue revisions to the formula requirements for spirits and wine products to achieve reductions similar to those already realized for malt beverage formulas, which may require rulemaking to fully implement.

Further, TTB will continue to employ its strategy to increase electronic filing to manage workloads and reduce processing times. These efforts include improving online guidance, enhancing the help features in TTB's online systems, and implementing system upgrades intended to increase the compliance of initial submissions. In FY 2015, TTB achieved a combined electronic filing rate of 94 percent, as tracked by its measure of Percent of Electronically Filed Label and Formula Applications. The planned guidance and system improvement efforts will help TTB achieve its electronic filing target of 95 percent in FY 2016.

Summary of Management and Organizational Excellence Performance

Effectively and efficiently administering the Bureau's revenue collection and public protection missions requires that TTB create the conditions necessary for programs to reach and sustain excellence. In all aspects of performing its mission, TTB aims to ensure that its programs operate efficiently and effectively, and with full accountability. TTB accomplishes this by providing program offices with the high-quality management and administrative support needed to achieve the Bureau's program goals.

The Bureau's objectives in the area of Management and Organizational Excellence align with the Administration's emphasis on automating processes to improve services and enhancing internal operations to be more efficient and effective. In FY 2015, the Bureau demonstrated its ability to enhance efficiency and reduce costs through its strategic management of human capital, rigorous financial management practices, and information technology (IT) enhancements to improve operations.

Human Capital Management

In FY 2015, TTB continued efforts to align workforce needs with the strategic direction of the Bureau, taking into account the overall business and cultural vision for TTB. Significant accomplishments include:

- Addressing workforce trends by identifying and closing competency gaps and through strategic workforce planning for certain mission-critical occupations, including cybersecurity positions;
- Administering the Treasury Competency Assessment Process for Human Capital professionals to focus related training resources on the most important areas to meet customer and organizational needs;
- Implementing a revised collective bargaining agreement that includes significant updates in areas that enhance employee satisfaction, such as flexible work schedules, telework, and employee recognition;
- Providing an employee-friendly culture that strikes an appropriate work/life balance;
- Incorporating organizational needs into human capital planning as identified by the Office of Personnel Management's Federal Employee Viewpoint Survey results; and

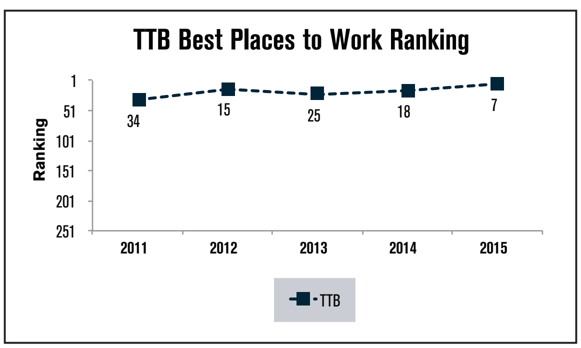
- Streamlining human resource functions through various information systems, including a new electronic employee official personnel file and enhanced online availability of self-service personnel actions.

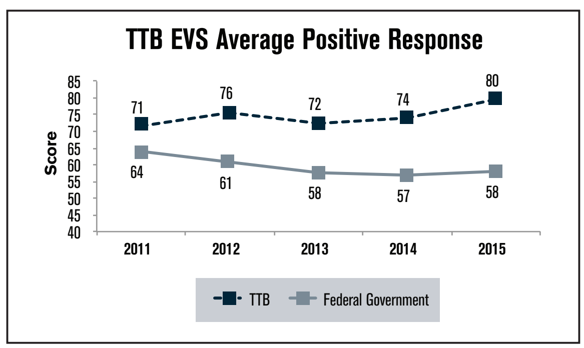
Employee engagement and satisfaction is critical to a productive workplace. Each year, the Office of Personnel Management (OPM) administers the Federal Employee Viewpoint Survey (FEVS) to measure the satisfaction of the federal workforce. TTB developed a FY 2015 FEVS Action Plan to address areas in the survey that showed a decline from the prior year. In contrast to a government-wide downward trend, TTB increased its employee positive response rate to 74 percent in its 2014 survey results, as compared to the government average of 57 percent. Based on this survey data, the Partnership for Public Service determines rankings for federal agencies. TTB ranked 18th out of 315 sub-component agencies on the 2014 Best Places to Work in the Federal Government rankings, an increase from its 2013 ranking of 25 out of 300.

In its FY 2015 planning efforts, TTB targeted the areas of internal communications, employee development and training, and workforce recruitment and retention strategies. During FY 2015, TTB:

- Held two Bureau town hall meetings to apprise employees of current events, priorities, and challenges;
- Implemented several improvements and policy changes to its hiring process to improve the time it takes to on-board new employees; and
- Reviewed its employee onboarding, mentoring, and leadership development program for efficiency and effectiveness, with final recommendations on improvements planned in FY 2016.

The 2015 FEVS data indicates that TTB increased its positive response rate to 80 percent, again exceeding the government-wide results. The 2015 Best Places to Work rankings, released in December, indicate that TTB ranked 7th out of 320 sub-component agencies, an improvement compared to the prior year. TTB has begun to update its FEVS Action Plan for FY 2016 based on these new survey results and will continue to assimilate various strategic measures with FEVS data to identify meaningful and targeted actions to improve employee engagement and satisfaction.





The reported scores indicate the average of three survey items related to job and organization satisfaction that identify overall employee satisfaction. This data was revised to represent the Partnership for Public Service method.

As a knowledge-intensive organization, TTB requires a highly trained workforce to fulfill its responsibility to protect the public and collect the revenue within a dynamic and global environment. During FY 2015, TTB used a variety of human capital policies and programs for recruiting and attracting talent to ensure qualified people with the necessary skills are in the right positions, and to continue to retain those professionals in the future. Successful strategies employed in FY 2015 included working with a diverse range of universities, community organizations, and professional associations as well as the expanded use of special hiring authorities for persons with disabilities.

Workforce planning is also a strategic priority for the Bureau, especially as it relates to TTB's mission-critical positions. Within the next five years, approximately 50 percent of TTB's workforce will be eligible to retire. TTB continued its Emerging Leaders Program (ELP), established in FY 2009. 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 series supports TTB's workforce planning strategies and prepares participants with the competencies critical for higher levels of leadership responsibility. Based on participant feedback, TTB is working on expanding the program to include mentoring opportunities and detail assignments to broaden the exposure of program participants.

Financial Management

TTB established and monitored key performance standards to ensure that its business activities covering financial accounting and reporting operate in a highly effective and efficient manner. In FY 2015, TTB achieved all of its financial management performance metrics, in collaboration with its shared service provider, the Bureau of the Fiscal Service Administrative Resource Center (BFS ARC).

This joint effort in providing financial management services has allowed the Bureau to meet its financial goals and deliver quality accounting and budget services to program staff, including:

- Paying vendor invoices on time (Prompt Payment Rate) greater than 99.5 percent;
- Ensuring a Proper Payments Rate of greater than 99.5 percent;
- Processing Budget Reprogramming Documents within 2 business days;
- Completing timely entry of budget and financial data in the OMB MAX reporting system;
- Reconciling Fund Balance with Treasury by the 20th calendar day of the month;
- Ensuring prompt deposits and recording of tax collections; and
- Providing timely and useful financial management data.

TTB also met established due dates to ensure timely submission of reports required by BFS ARC. Monthly closing of financial data was completed within three business days, and payroll information was downloaded into the core accounting system within three working days of receipt from the National Finance Center. Joint reviews of payroll activity were conducted to obtain reliable projections of payroll costs relative to on-board staffing levels. The payroll projection system has proven to be a valuable tool as it enables TTB to extract information from the core accounting system and make sound payroll projections continues to provide reliable and accurate financial information for TTB management to use in executing the budget.

In FY 2015, the Bureau was also able to conduct timely reviews of financial information so that program offices were provided with the data necessary to make efficient use of the Bureau's annual appropriation and fulfill TTB's tax collection and regulatory responsibilities, as outlined in its budget plan. By closely monitoring the Bureau's financial status, TTB was successful in making a number of key investments to support its mission. These financial reviews were not limited to the current year's appropriation. TTB also conducted a review of FY 2014 obligations to recover up to 50 percent of unobligated funds, which may be accessed for critical and/or unforeseen investments with appropriate authorization. In FY 2015, TTB received authorization for $217 thousand from unobligated FY 2014 funds to invest in IT hardware equipment.

In support of Treasury's OMB Circular A-123 requirements over financial reporting controls, TTB tested internal controls related to the financial reporting of tax collections. The review identified no control weaknesses over TTB's collection activity and the reporting of those collections.

Expansion of Technology Solutions

TTB aligns its business and technical strategy to leverage technology to the greatest extent to enable the Bureau to meet its objectives in the most efficient and cost-effective manner. In FY 2015, TTB made significant progress in each of its four IT strategic goals:

- Modernize IT Systems to reduce costs, streamline operations, and improve customer satisfaction.
- Increase TTB Workforce Effectiveness to enhance systems that focus on decision support and analysis and mobility of the TTB workforce.
- Increase IT Cost Efficiency by leveraging strategic sourcing solutions, optimizing IT contracts, and reducing costs through innovations.
- Strengthen IT Security to ensure that security vulnerabilities are addressed and patches are installed while allowing appropriate access to information and applications.

With regard to its first goal, TTB optimized and modernized its custom applications infrastructure while also automating manual business processes to meet the evolving needs of its business users. In FY 2015, 60 percent of the system releases automated a manual business process, freeing TTB resources to perform mission-essential activities. These releases included improvements to Formulas Online, which modernized the user interface and enabled customers to contact a TTB specialist directly in the system while working on an application. TTB also implemented a significant change to its user registration process for COLAs Online and Formulas Online, streamlining how signing authority or power of attorney authorization is verified. Further, TTB made significant progress on the first phase of its multi-year project to enhance Permits Online to support the electronic filing and processing of original and amended permit applications, which allowed TTB to make several internal processing enhancements to reduce the manual tasks associated with approving a TTB permit. Other enhancements related to cash bond payments provided benefits to both TTB and industry. In FY 2015, TTB also made substantial progress in its goal to increase TTB workforce effectiveness. TTB has developed data analytics tools and infrastructure to enable its program offices to better analyze and make use of data from internal applications. In addition, through relationships with external agencies, TTB continued to acquire other government and commercial data that its enforcement personnel can use to determine gaps in excise tax payments and other compliance violations. Leveraging data analysis tools and technologies improves data-driven decision making and enables timely actions. In FY 2015, TTB made progress on improving data sharing by integrating information from different organizations into its analytics tools and developing plans to implement a data warehouse with current in-house technologies. In the coming year, TTB will assess new tools and technologies to extend its data management and analytical capabilities.

In FY 2015, toward its goal to increase IT cost efficiency, TTB continued efforts to move its custom IT applications infrastructure from proprietary hardware to more common, lower-cost commodity hardware and to shift away from proprietary software platforms to Open Source platforms. TTB decommissioned 83 percent of its proprietary hardware in FY 2015, with those remaining targeted for replacement in FY 2016. These efforts will lower the costs for hardware, software, and IT support while including new features that will reduce system downtime required for system maintenance. Going forward, TTB will continue to seek efficiencies by implementing strategic sourcing solutions, optimizing IT contracts, and reducing costs through innovations.

Maintaining the security of TTB's IT systems remains a top priority, particularly in light of the data breaches and cyber-attacks perpetrated on government agencies in recent years. TTB met or exceeded the action plans and strategies set by the Federal Chief Information Officer's Cybersecurity Sprint Team to address critical cybersecurity priorities established in response to the OPM data breach. TTB will continue to constantly monitor emerging cybersecurity threats and mitigate vulnerabilities through the use of multi-layered technical controls. In FY 2016, TTB will work to continuously strengthen its security posture as conditions change in order to protect the sensitive information the Bureau collects and uses to achieve its mission responsibilities.

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Message from the Chief Financial Officer

Continuous improvement in our core lines of business remained TTB's focus in FY 2015. The fiscal challenges of 2015, which included three continuing budget resolutions, tested our ingenuity and resourcefulness in this regard. We faced these challenges by relying heavily on data-driven decision making and performance management tools to examine our operations and ensure that we are efficiently managing our resources and returning value for the investments made in our mission.

Again this year, TTB obtained an unmodified (clean) audit opinion on its financial statements from an independent public accounting firm. This achievement reflects our genuine commitment to a vigorous internal control environment and financial reporting excellence. Further evidence of this commitment lies in our management practices, which include routine evaluations designed to confirm that sound internal and administrative controls are in place to ensure the collection and verification of more than $22 billion in annual federal excise tax collections from the alcohol, tobacco, firearms, and ammunition industries.

From a strategic planning perspective, we continue to apply the Balanced Scorecard methodology to integrate our strategic plan with our management and investment decisions, which have helped ensure TTB's long-term effectiveness. This tool provides a comprehensive management framework for making decisions regarding where to direct our limited resources to achieve the greatest performance impact. By using the data generated by the Balanced Scorecard and maintaining an open dialogue about our strategy, we are able to readily identify issues and opportunities and take targeted actions to improve the organization as a whole.

Even as resources contract, TTB will continue to aim high in its performance standards and put in place improved processes and tools to meet the expectations of the growing industries that we regulate. In the years ahead, strategic investments and sound planning will support TTB in improving the management and performance of the organization.

Cheri D. Mitchell

Cheri D. Mitchell
Assistant Administrator, Management/CFO

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Part III: Financial Results, Position, Condition, and Auditors' Reports

Budget Highlights by Fund Account

This section highlights the TTB program activity in FY 2015 under the annual Salaries and Expenses appropriations account. 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 2015 Salaries and Expenses	
Fund Source	
Salaries & Expenses FY 2015 Appropriation (P.L. 113-235, Consolidated and Further Appropriations Act, 2015) 1/	**$100,000,000**
Obligations Incurred in FY 2015 from Current Year Appropriations	$98,427,000
Salaries & Expenses FY 2014/15 (50% Prior Year Recovery)[2/]	**$217,000**
Obligations Incurred in FY 2014 from Current Year Appropriations	$217,000

1/ P.L. 113-235 included $3 million in funding for TTB to use for the costs of criminal enforcement activities and special law enforcement agents for targeting tobacco smuggling and other criminal diversion activities.

2/ General Provisions of the appropriations bill provide that 50 percent of the unobligated balances remaining available at the end of Fiscal Year 2014 shall remain available through September 30, 2015.

In FY 2015, TTB received $100 million in direct appropriations under the FY 2015 Consolidated and Further Continuing Appropriations Act. This amount included $3 million for the costs of criminal enforcement activities and special law enforcement agents for targeting tobacco smuggling and other criminal diversion activities. The authorized full-time equivalent (FTE) staffing level for direct positions was 473 in the FY 2015 President's Budget.

The Bureau obligated or expended more than 98 percent of the $100 million in FY 2015 direct funding from its one-year Salaries and Expenses appropriation. However, TTB experienced a delay of a large contract award at the end of FY 2015 and expects this amount to increase to over 99 percent once the contract is obligated and expended against FY 2015 funds.

TTB also received Congressional authorization in FY 2015 to use an additional $217 thousand from the prior year account of unobligated available balances (also referred to as the 50 percent account) to replace obsolete IT equipment.

Offsetting Collections and Reimbursable Accounts

During FY 2015, the Bureau realized $6.1 million in spending authority from offsetting collections and reimbursable accounts. The primary sources of reimbursable funding were collections from the cover-over program and enforcement activity in Puerto Rico, investigative expenses and data systems from TEOAF, reimbursement from the Community Development Financial Institution Fund (CDFI) for information technology services, reimbursement for technical assistance for Specialty Crops (TASC) program with the USDA, and reimbursement for laboratory services from the Food and Drug Administration and the Bureau of Alcohol, Tobacco, Firearms, and Explosives.

Puerto Rico Cover Over and Enforcement Activities

All costs associated with the functioning and support of TTB's Puerto Rico office are paid from the cover-over program, which is offset from cover-over taxes collected in the United States on products originating in Puerto Rico ($343 million) and the U.S. Virgin Islands ($7 million).

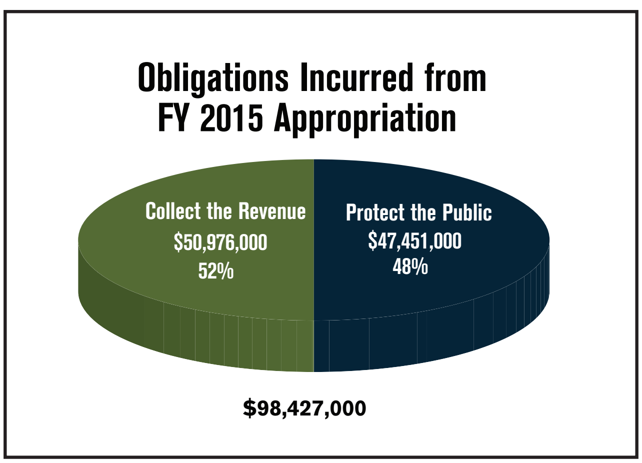
In Puerto Rico, TTB conducts annual audits and investigations of industry members regarding the collection of revenue, application processing, and product integrity. TTB conducts revenue inspections on producers of alcohol and tobacco. These examinations are integral to TTB's fulfillment of its obligations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

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 for rum it produces and transports to the U.S. through the Department of the Interior.

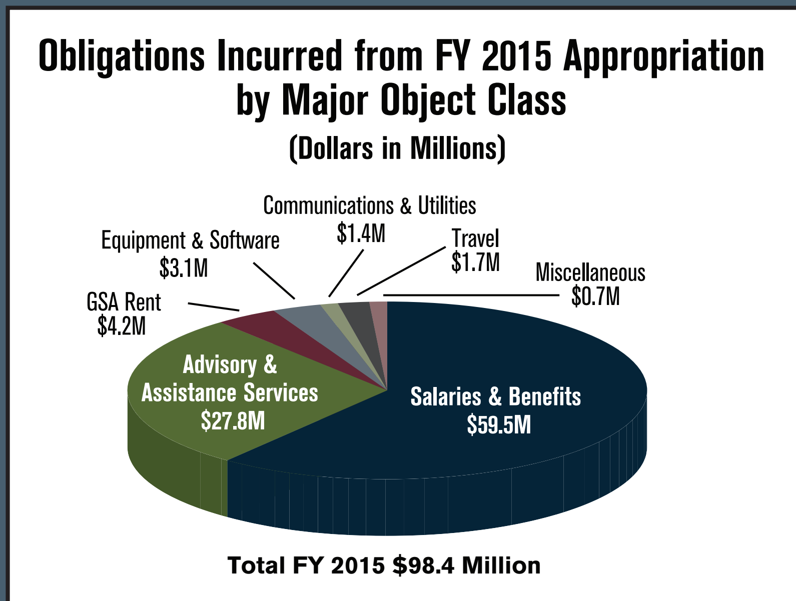
Linking Budget and Program Spending

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 2015 data stemming from the account code structure shows that TTB incurred obligations of $98,427,000 of its salaries and expenses appropriation, of which 52 percent was spent on the Collect the Revenue budget activity and 48 percent was spent on Protect the Public budget activity.



Spending by Major Object Class



TTB presents its obligations incurred by budget activity and program in its Annual Report 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 (89 percent) fall into two principal major object classes: Salaries & Benefits and Advisory & Assistance Services (Contracts).

Salaries & Benefits comprise 60 percent of total obligations incurred by object class, and cover the cost of TTB's roughly 456 actual positions in FY 2015. The Advisory & Assistance Services object class constitutes 28 percent of FY 2015 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 the scanning and imaging of label applications and tax forms, lab maintenance, and Web site development.

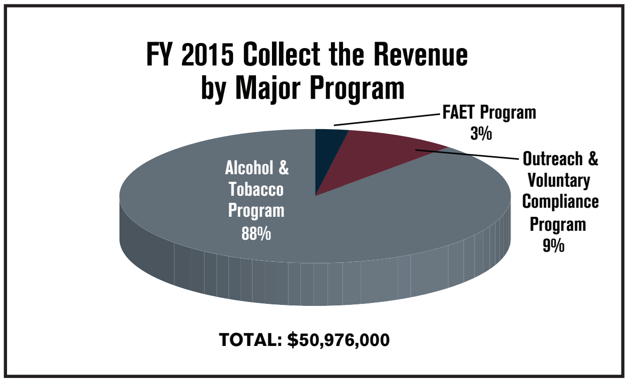
Intra-governmental services include administrative support services provided by our shared service provider for human resources, accounting, travel, and procurement. Other intra-governmental services include budget items such as the costs for special agent support, background investigations, and Federal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

In FY 2015, the bureau's travel costs were primarily related to core mission activities for audits and investigations. The remaining object classes that cover the FY 2015 obligations incurred include cost categories for rent, communications, equipment, and other miscellaneous categories.

Obligations Incurred from FY 2015 Appropriations by Budget Activity

Collect the Revenue….. $50,976,000

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.



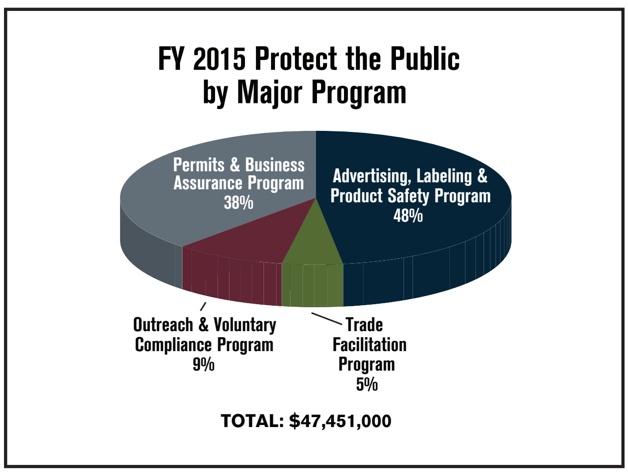
Under the Collect the Revenue activity, TTB administers three programs: 1) Alcohol and Tobacco Tax; 2) Firearms and Ammunitions Excise Tax (FAET); and 3) Outreach and Voluntary Compliance.

In FY 2015, TTB expended 88 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 projects 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 industry members.

Costs for the Outreach and Voluntary Compliance Program totaled 9 percent of our Collect the Revenue resources. These resources supported efforts to educate and train industry members regarding their obligations in the areas of tax calculations and remittance.

Protect the Public….. $47,451,000

The Protect the Public budget activity encompasses TTB's strategy to ensure industry compliance with laws and regulations designed to protect the consumers of alcohol beverages, 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) Advertising, Labeling, and Product Safety; 3) Trade Facilitation; and 4) Outreach and Voluntary Compliance.

An analysis of the financial data from FY 2015 reveals that TTB spent the preponderance of its Protect the Public resources on two programs: Permits and Business Assurance (38 percent), and Labeling, Advertising, and Product Safety (48 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 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 (5 percent) and the Outreach and Voluntary Compliance Program (9 percent). TTB Trade Facilitation Program includes identifying and addressing barriers to trade in the international marketplace. The Outreach and Voluntary Compliance Program promotes compliance by providing regulatory standards and guidance, encouraging use of TTB e-Gov filing systems, and supporting industry members through outreach and education efforts.

Systems and Controls

Introduction

During FY 2015, TTB contracted with BFS ARC to handle its administrative, human resources, procurement, travel and, financial functions.

Accounting Systems and Controls

The BFS 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 2015 audit of Treasury's consolidated financial statements, which covered the financial management systems of our service provider, BFS 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. Only two TTB databases operate outside the BPD ARC environment—the TTB property management system and the tax administration database, IRIS.

Federal Managers' Financial Integrity Act of 1982 (FMFIA)

The FMFIA requires Federal agencies to conduct ongoing evaluations of the systems of internal accounting and administrative control. Annually, TTB must report to Treasury all material weaknesses found through these evaluations. Treasury submits a consolidated report on the Department's controls to the President.

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

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

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

These policies address:

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

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

Management accountability systems must assure basic compliance with the objectives of the FMFIA and the management control standards set by the Government Accountability Office. In addition, any inspection, audit, evaluation, peer or program review process, self-assessment, or the equivalent, used by TTB management to keep informed about needs and opportunities for improvement must incorporate these same standards into its methodology.

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

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

This increased emphasis on management controls has had a positive impact on programs 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 2015 that included an extensive review of administrative and internal controls.

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, 2015.

- The Balance Sheet shows the assets, liabilities, and net position as of a point in time, in this case, as of September 30, 2015.
  - The total assets were reported as $97.8 million at the close of the fiscal year. Of this amount, $43.2 million is classified as the fund balance with Treasury. That fund balance account is the undisbursed account balance with the Treasury, primarily resulting from undisbursed appropriations.
  - The total liabilities amount reported is $70.4 million, of which total intragovernmental liabilities amounts to $27.4 million. The other liabilities are classified by type, such as accrued tax refunds, payables, and other liabilities.
- The Statement of Net Cost shows the total net cost of operations at $105.4 million for the Bureau to administer its two budget activities.
  - The total net cost reported as program costs under the Collect the Revenue program was $51.1 million.
  - The total net cost reported as program costs under the Protect the Public program was $54.3 million.
- The Statement of Change in Net Position shows a total net position balance of $27.4 million, and that amount represents the unexpended appropriations from both prior periods and from the current operating cycle in addition to Cummulative Results of Operations.
- The Statement of Budgetary Resources shows the budgetary resources received and the status of those resources. For TTB, the resources are primarily annual appropriations received from in the amount of $100.0 million, in addition to spending authority from collections. The offsetting collections amount was $6.2 million. Of that amount, $3.1 million is from the recovery of costs for maintaining enforcement operations in Puerto Rico.
- The Statement of Custodial Activity shows the amount of revenue received during FY 2015 compared with FY 2014, 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 $22.3 billion. Within this total, the Bureau processed tax refunds, drawback claims, and cover-over payments in the amount of $685.1 million.
  - **Drawback claims** of $306.6 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 unfit for beverage purposes and used in the production of medicines, medicinal preparations, food products, flavors, flavoring extracts, or perfumes.

- **Tax refunds** and other adjustments (e.g., interest) were processed in the amount of $27.8 million.
- **Cover-over payments** were returned to Puerto Rico and the Virgin Islands in the amount of $350.5 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 $21.6 billion, and that amount was deposited to the U.S. Treasury to fund the Federal Government, with the exception of the Federal firearms and ammunition Federal excise taxes. Those revenues, in the amount of $638.5 million, were remitted to the Fish and Wildlife Restoration Fund under provisions of the Pittman Robertson Act of 1937.

Notes to the Basic Financial Statements

The notes to the basic financial statements provide additional information that is essential to a full understanding of the financial information provided in the statements.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report presents required supplementary information. For instance, TTB includes a table that outlines the tax collections for the past 10 years for each of the key revenue sources. Also, a table has been included to show the refunds, cover-over payments, and drawback payments for the past 10 years.

Financial Statements, Accompanying Notes, and Supplemental Information

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 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 2015 and 2014, all financial statements and notes have been audited.

Management Responsibilities

Bureau management is responsible for the fair presentation of information contained in the principal financial statements, in conformity with generally accepted accounting principles (GAAP), and the form and content for entity financial statements specified by OMB in Circular A-136.

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

TTB in Relation to Treasury's Annual Financial Statements

The Department of the Treasury received an unmodified audit opinion on its FY 2015 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 generally accepted accounting principles (GAAP) of the United States.

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

Independent Auditors' Report

Inspector General
Department of the Treasury

Administrator
Alcohol and Tobacco Tax and Trade Bureau:

Report on the Financial Statements

We have audited the accompanying financial statements of the Alcohol and Tobacco Tax and Trade Bureau, which comprise the balance sheets as of September 30, 2015 and 2014, and the related statements of net cost, changes in net position, budgetary resources, and custodial activity 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; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 15-02 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion on the Financial Statements

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, 2015 and 2014, 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 *Part I: Management's Discussion and Analysis*, and the *Required Supplementary Information* section of *Part III, Financial Results, Position, Condition and Auditors' Reports* 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) pages i through vii, (2) *Part II: Program Performance Results*, (3) *Message from the Chief Financial Officer*, (4) pages 45 through 54 and pages 86 through 94 of *Part III, Financial Results, Position, Condition and Auditors' Reports*, and (5) *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 audit 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*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2015 on our consideration of the Alcohol and Tobacco Tax and Trade Bureau's internal control over financial reporting and our report dated December 14, 2015 on our tests of its compliance with certain provisions of laws, regulations, and contracts, and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Alcohol and Tobacco Tax and Trade Bureau's internal control over financial reporting and compliance.

KPMG LLP

December 14, 2015

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

Independent Auditors' Report on Internal Control Over Financial Reporting

Inspector General
Department of the Treasury

Administrator
Alcohol and Tobacco Tax and Trade Bureau:

We have audited, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*, the financial statements of the Alcohol and Tobacco Tax and Trade Bureau, which comprise the balance sheets as of September 30, 2015 and 2014, and the related statements of net cost, changes in net position, budgetary resources and custodial activity for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated December 14, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements as of and for the year ended September 30, 2015, 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.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and the result of that testing, and not to provide an opinion on the effectiveness of the Alcohol and Tobacco Tax and Trade Bureau's internal control. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Alcohol and Tobacco Tax and Trade Bureau's internal control. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

December 14, 2015

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Independent Auditors' Report on Compliance and Other Matters

Inspector General
Department of the Treasury

Administrator
Alcohol and Tobacco Tax and Trade Bureau:

We have audited, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*, the financial statements of the Alcohol and Tobacco Tax and Trade Bureau, which comprise the balance sheets as of September 30, 2015 and 2014, and the related statements of net cost, changes in net position, custodial activity, and budgetary resources for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated December 14, 2015.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Alcohol and Tobacco Tax and Trade Bureau's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests of compliance disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 15-02.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of compliance and the result of that testing, and not to provide an opinion on the Alcohol and Tobacco Tax and Trade Bureau's compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Alcohol and Tobacco Tax and Trade Bureau's compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

December 14, 2015

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ALCOHOL AND TOBACCO TAX AND TRADE BUREAU
BALANCE SHEETS
As of September 30, 2015 and 2014
(In Thousands)

	2015	2014
ASSETS		
Intragovernmental Assets:		
Fund Balance with Treasury (Note 2)	$43,215	$35,545
Accounts Receivable (Note 3)	275	1,263
Due from the General Fund (Notes 5 and 8)	14,209	1,127
Total Intragovernmental Assets	57,699	37,935
Accounts Receivable (Note 3)	483	580
Tax and Trade Receivables, Net (Notes 4 and 8)	26,070	30,915
Property, Plant and Equipment, Net (Note 6)	13,429	15,851
Advances (Note 7)	80	34
TOTAL ASSETS (Note 8)	$97,761	$85,315
LIABILITIES		
Intragovernmental Liabilities:		
Accounts Payable	$903	$1,019
Payroll Benefits	386	320
FECA Liabilities	26	29
Due to the General Fund (Notes 4 and 5)	21,125	25,172
Other Liabilities (Note 9)	4,946	5,745
Total Intragovernmental Liabilities	27,386	32,285
Accounts Payable	3,741	2,553
Payroll Benefits	1,494	1,302
FECA Actuarial Liability	158	176
Refunds Payable	14,209	1,127
Unfunded Leave	4,453	4,421
Cash Bond Liabilities	15,085	12,650
Other Liabilities (Note 9)	3,862	949
TOTAL LIABILITIES	$70,388	$55,463
Commitments and Contingencies (Note 19)		
NET POSITION		
Unexpended Appropriations - Other Funds	$18,468	$17,723
Cumulative Results of Operations - Other Funds	8,905	12,129
TOTAL NET POSITION - OTHER FUNDS	$27,373	$29,852
TOTAL LIABILITIES AND NET POSITION	$97,761	$85,315

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, 2015 and 2014
(In Thousands)

	2015	2014
COLLECT THE REVENUE		
Program Costs		
Intragovernmental Gross Costs	$14,231	$14,023
Less: Intragovernmental Earned Revenue	(2,370)	(2,030)
Intragovernmental Net Costs	11,861	11,993
Gross Costs with the Public	41,592	40,453
Less: Earned Revenues from the Public	(2,320)	(2,393)
Net Costs with the Public	39,272	38,060
Total Net Program Cost	$51,133	$50,053
PROTECT THE PUBLIC		
Program Costs		
Intragovernmental Gross Costs	$14,207	$14,029
Less: Intragovernmental Earned Revenue	(708)	(530)
Intragovernmental Net Costs	13,499	13,499
Gross Costs with the Public	41,518	40,468
Less: Earned Revenues from the Public	(693)	(625)
Net Costs with the Public	40,825	39,843
Total Net Program Cost	$54,324	$53,342
NET COST OF OPERATIONS (Note 13)	$105,457	$103,395

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, 2015 and 2014
(In Thousands)

	2015	2014
Cumulative Results of Operations		
Beginning Balances	$12,129	$13,498
Budgetary Financing Sources		
Appropriations Used	98,715	96,902
Transfers-in without reimbursement	-	900
Other Financing Sources (Non-exchange)		
Transfers-in without reimbursement	-	49
Imputed Financing from Costs Absorbed by Others (Note 12)	3,520	4,175
Transfers of the General Fund and Other	(2)	-
Total Financing Sources	102,233	102,026
Net Cost of Operations (Note 13)	(105,457)	(103,395)
Net Change	(3,224)	(1,369)
Cumulative Results of Operations	$8,905	$12,129
UNEXPENDED APPROPRIATIONS		
Beginning Balances	$17,723	$16,629
Budgetary Financing Sources		
Appropriations Received	100,000	99,000
Other Adjustments	(540)	(1,004)
Appropriations Used	(98,715)	(96,902)
Total Budgetary Financing Sources	745	1,094
Total Unexpended Appropriations	$18,468	$17,723
TOTAL NET POSITION	$27,373	$29,852

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, 2015 and 2014
(In Thousands)

	2015	2014
BUDGETARY RESOURCES (Note 14)		
Unobligated Balance Brought Forward, Oct 1	$4,273	$4,720
Recoveries of Prior Year Obligations	1,104	1,465
Other Changes in Unobligated Balance	(540)	(1,005)
Unobligated Balance from Prior Year Budget Authority, Net	4,837	5,180
Appropriations (discretionary)	100,000	99,000
Spending Authority from Offsetting Collections (discretionary)	6,233	6,673
TOTAL BUDGETARY RESOURCES	$111,070	$110,853
STATUS OF BUDGETARY RESOURCES		
Obligations Incurred (Note 15)	$105,906	$106,580
Unobligated Balance, End of Year		
Unobligated Balance Apportioned	1,573	400
Unobligated Balance Unapportioned	3,591	3,873
Total Unobligated Balance, End of Year	5,164	4,273
TOTAL STATUS OF BUDGETARY RESOURCES	$111,070	$110,853
CHANGE IN OBLIGATED BALANCE		
Unpaid Obligations:		
Unpaid Obligations Brought Forward, Oct 1	$20,903	$17,121
Obligations Incurred, Net (Note 15)	105,906	106,580
Outlays, Gross	(104,447)	(101,333)
Recoveries of Prior Year Unpaid Obligations, Actual	(1,104)	(1,465)
Unpaid Obligations, End of Year, Gross	21,258	20,903
Uncollected Payments:		
Uncollected Payments Brought Forward, Federal Sources, Oct 1	(3,230)	(2,211)
Change in Uncollected Customer Payments, Federal Sources	1,079	(1,019)
Uncollected Payments, Federal Sources, End of Year	(2,151)	(3,230)
OBLIGATED BALANCE, END OF YEAR	$19,107	$17,673
OBLIGATED BALANCE, START OF YEAR	$17,673	$14,910
BUDGET AUTHORITY AND OUTLAYS, NET		
Budget Authority:		
Budget Authority, Gross (discretionary)	$106,233	$105,673
Actual Offsetting Collections (discretionary)	(7,312)	(5,654)
Change in Uncollected Customer Payments, Federal Sources (discretionary)	1,079	(1,019)
BUDGET AUTHORITY, NET (discretionary)	$100,000	$99,000
Outlays, Gross (discretionary)	104,447	101,333
Actual Offsetting Collections (discretionary)	(7,312)	(5,654)
Outlays, Net (discretionary)	97,135	95,679
Distributed Offsetting Receipts	(9)	(3)
AGENCY OUTLAYS, NET (discretionary)	$97,126	$95,676

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, 2015 and 2014
(In Thousands)

	2015	2014
SOURCES OF CUSTODIAL REVENUE		
Revenue Received		
Excise Taxes (Note 16)	$22,257,284	$22,246,451
Interest, Fines and Penalties	1,930	935
Other Custodial Revenue	7	2
Total Revenue Received (Note 17)	22,259,221	22,247,388
Less Refunds and Drawbacks (Note 16)	(334,567)	(356,998)
Net Revenue Received	21,924,654	21,890,390
Accrual Adjustment	(17,929)	16,660
Total Sources of Custodial Revenue	$21,906,725	$21,907,050
DISPOSITION OF CUSTODIAL REVENUE		
Amounts Provided to:		
General Fund	$20,935,636	$20,809,886
Wildlife Restoration Fund	638,496	768,768
Amounts Provided to Fund the Federal Government (Note 17)	21,574,132	21,578,654
Amounts Provided to Non-Federal Entities (Note 16)	350,522	311,736
Increases/(Decreases) in Amounts Yet to be Provided:		
General Fund	(4,047)	11,511
Wildlife Restoration Fund	(799)	2,537
(Increase)/Decrease in Accrued Refunds	(13,083)	2,612
Total Disposition of Custodial Revenue	$21,906,725	$21,907,050
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 significant assets, liabilities, and net cost of operations, changes in net position, budgetary resources, and custodial activities of TTB. The financial statements have been prepared from the books and records of TTB in conformity with generally accepted accounting principles (GAAP) in the United States, and form and content guidance for entity financial statements issued by the Office of Management and Budget (OMB) in OMB Circular A-136. TTB's accounting policies are summarized in this note. GAAP for Federal entities is prescribed by the Federal Accounting Standards Advisory Board (FASAB), which has been designated the official accounting standards-setting body for the Federal Government by the American Institute of Certified Public Accountants.

C. Basis of Accounting

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

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

D. Revenue and Financing Sources

(1) Exchange Revenue

Exchange Revenues are inflows of resources to a Government entity that the entity has earned by providing something of value to the public or another Government entity at a price. The majority of the Exchange Revenues earned by the Bureau result from providing services to the Government of Puerto Rico, as well as other Treasury 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 on the records on a modified cash basis of accounting. The Statement of Custodial Activity is also presented on a modified cash basis.

F. Fund Balance with Treasury

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

G. Accounts Receivable

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

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

H. Property, Plant, and Equipment

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

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

Additionally, TTB also capitalizes like assets purchased in bulk when the unit price is greater than or equal to $5,000 and less than $25,000, with the aggregated purchase amount greater than or equal to $250,000.

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

I. Advances

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

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 Plan

Employees hired after December 31, 1983, are automatically covered by Federal Employees Retirement System (FERS) and Social Security. For most employees hired after December 31, 1983, TTB also contributes the employers' matching share of Social Security. For the FERS basic benefit, employees contributed .8 to 4.4 percent of basic pay in FY 2015, the same as FY 2014. TTB contributed between 13.2 and 11.1, for a total contribution rate of 14.0 to 15.5 percent in FY 2015, depending on employees' retirement categories. The total contribution rate in FY 2014 was between 12.7 and 14.0 percent. The cost of providing a FERS basic benefit, as provided by the Office of Personnel Management (OPM), is equal to the amounts contributed by TTB and the employees.

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

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

There were no changes in presentation between FY2014 and FY2015.

T. Subsequent Events

Subsequent events and transaction occurring after September 30, 2015 through the date of the auditors' opinion have been evaluated for potential recognition or disclosure in the financial statements. The date of the auditors' opinion also represents the date that the financial statements were available for issue.

Note 2. Fund Balance with Treasury

Fund Balance with Treasury as of September 30, 2015 and 2014 consisted of the following (in thousands):

	2015	2014
Fund Balances:		
General Funds	$24,271	$21,946
Other Funds	18,944	13,599
Total	$43,215	$35,545
Status of Fund Balances:		
Unobligated Balance - Available	$1,573	$400
Unobligated Balance - Unavailable	3,591	3,873
Obligated Balance Not Yet Disbursed	19,107	17,673
Subtotal	24,271	21,946
Adjustment for Non-Budgetary Funds	18,944	13,599
Total Status of Fund Balances	$43,215	$35,545

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, 2015 and 2014 consisted of the following (in thousands):

	2015	2014
Intragovernmental Accounts Receivable:		
Due from Treasury Executive Office of Asset Forfeiture	$171	$983
Due from Community Financial Development Institutions Fund	58	280
Due from Department of Agriculture	19	-
Due from Department of Health and Human Services	27	-
Total Intragovernmental Accounts Receivable	$275	$1,263
Due from the Government of Puerto Rico	$477	$576
Due from Employees	6	4
Total Accounts Receivable Due from the Public	$483	$580

No allowance for doubtful accounts has been recognized, nor have any accounts been written off in either FY2015 or FY2014. 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, 2015 and 2014 consisted of the following (in thousands):

	2015	2014
Tax and Trade Receivables	$158,463	$158,406
Interest Receivable	25,321	20,113
Penalties, Fines and Administrative Fees Receivable	72,996	70,602
Total Tax and Trade Receivables	256,780	249,121
Allowance for Doubtful Accounts	(230,710)	(218,206)
Total Tax and Trade Receivables, Net	$26,070	$30,915

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. This is an offsetting liability reported as Due to the General Fund.

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, 2015 and 2014 consisted of the following (in Thousands):

	2015	2014
Due from the General Fund	$14,209	$1,127

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.

	2015	2014
Due to the General Fund	$21,125	$25,172

Amounts due to the General Fund primarily represent the balance of receivables related to Alcohol and Tobacco excise taxes. Receivables related to Firearms and Ammunition excise taxes are payable to the Department of Interior's Fish and Wildlife Restoration Fund, not the General Fund.

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

Property, Plant and Equipment as of September 30, 2015 and 2014 consisted of the following (in thousands):

2015	Estimated Useful Life (Years)	Acquisition Value	Accumulated Depreciation	Net Book Value
Internal Use Software	3 - 5	$13,644	$11,353	$2,291
Equipment	4 - 6	14,058	10,572	3,486
Leasehold Improvements	2 - 5	1,956	1,213	743
Building	40	9,772	2,863	6,909
Total PP&E		$39,430	$26,001	$13,429

2014	Estimated Useful Life (Years)	Acquisition Value	Accumulated Depreciation	Net Book Value
Internal Use Software	3 - 5	$13,644	$9,470	$4,174
Equipment	4 - 6	13,362	9,656	3,706
Leasehold Improvements	2 - 5	1,870	1,062	808
Building	40	9,772	2,609	7,163
Total PP&E		$38,648	$22,797	$15,851

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 ATF.

Note 7. Advances

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

Note 8. Non-entity Assets

Non-entity Assets as of September 30, 2015 and 2014 consisted of the following (in thousands):

	2015	2014
Intragovernmental Non-entity Assets:		
Fund Balance with Treasury	$18,944	$13,599
Due from the General Fund	14,209	1,127
Total Intragovernmental Non-entity Assets	33,153	14,726
Accounts Receivable	1	2
Tax and Trade Receivables, Net	26,070	30,915
Total Non-Entity Assets	59,224	45,643
Total Entity Assets	38,537	39,672
Total Assets	$97,761	$85,315

Note 9. Other Liabilities

Other Liabilities as of September 30, 2015 and 2014 consisted of the following (in thousands):

	2015	2014
Due to the Fish and Wildlife Fund	$4,946	$5,745
Other Intragovernmental Liabilities	4,946	5,745
Offers-in-Compromise not yet Accepted	3,862	949
Total Other Liabilities with the Public	3,862	949
Total Other Liabilities	$8,808	$6,694

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, 2015 and 2014 consisted of the following (in thousands):

	2015	2014
Accrued FECA Liability	$26	$29
Total Intragovernmental Liabilities not Covered by Budgetary Resources	26	29
FECA Actuarial Liability	158	176
Unfunded Leave	4,453	4,421
Total Liabilities with the Public not Covered by Budgetary Resources	4,611	4,597
Total Liabilities not Covered By Budgetary Resources	4,637	4,626
Total Liabilities Covered by Budgetary Resources	65,751	50,837
Total Liabilities	$70,388	$55,463

Note 11. Future Funding Requirements

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

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

Note 12. Imputed Financing

Imputed Financing as of September 30, 2015 and 2014 consisted of the following (in thousands):

	2015	2014
Health Insurance	$2,216	$2,130
Life Insurance	8	8
Pension	1,296	2,037
Total Imputed Financing	$3,520	$4,175

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 2015 or 2014.

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 $1.3 million and $2.0 million for fiscal years 2015 and 2014 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 2015 to $5,469 from $5,169 in FY 2014, resulting in $2.2 million of imputed cost for employees' health benefits in FY2015 versus $2.1 million in FY 2014. The cost factor, as provided by OPM, for employees enrolled in the FEGLI program, remained unchanged from FY 2014 to FY 2015, at .02 percent of employees' basic pay. The FEGLI amounts totaling $8,000 each are also included as an expense and imputed financing source in TTB financial statements for fiscal years 2015 and 2014, respectively.

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, 2015 and 2014 consisted of the following (in thousands):

Fiscal Year Ended September 30, 2015

Activity	Budget Function Classification (BFC)	BFC Code	Gross Costs	Earned Revenue	Net Costs
Intragovernmental	Central Fiscal Operations	803	$28,438	$(3,078)	$25,360
With the Public	Central Fiscal Operations	803	83,110	(3,013)	80,097
Consolidated	Central Fiscal Operations	803	$111,548	$(6,091)	$105,457

Fiscal Year Ended September 30, 2014

Activity	Budget Function Classification (BFC)	BFC Code	Gross Costs	Earned Revenue	Net Costs
Intragovernmental	Central Fiscal Operations	803	$28,052	$(2,560)	$25,492
With the Public	Central Fiscal Operations	803	80,921	(3,018)	77,903
Consolidated	Central Fiscal Operations	803	$108,973	$(5,578)	$103,395

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

The following chart displays balances from the FY 2014 Statement of Budgetary Resources and actual fiscal year balances included in the FY 2016 President's Budget. There were no differences. The FY 2017 budget, which would include FY 2015 actuals, had not been published at the time of this report.

Fiscal Year Ended September 30, 2014 (In Millions / Unaudited)	**Statement of Budgetary Resources**	**President's Budget**
Budgetary Resources:		
Appropriations	$99	$99
Spending Authority from Offsetting Collections	7	7
Budgetary Resources Available for Obligation	$106	$106
Change in Obligated Balances:		
Unpaid Obligations brought forward, Beginning of Period	$17	$17
Obligations Incurred	107	107
Outlays, Gross	(102)	(102)
Recoveries of Prior Year Unpaid Obligations	(1)	(1)
Unpaid Obligations, End of Period	$21	$21
Uncollected Payments, Federal Sources, End of Period	(3)	(3)
Obligated Balance, End of Period	$18	$18
Outlays:		
Outlays, Gross	$102	$102
Actual Offsetting Collections	(6)	(6)
Outlays, Net	$96	$96

Additionally, the FY 2016 President's Budget disclosed budget authority of $303 million for FY 2014, funding cover-over payments to Puerto Rico, which is not reported in the Statement of Budgetary Resources.

The cover-over payments and associated tax revenues are reported as custodial activity of the Bureau. The tax revenues are not available for use in the operation of the Bureau and are not reported on the Statement of Net Cost. Likewise, the resultant cover-over payments are not recognized as an operating expense of the Bureau. Consequently, to present the refunds as an expense of the Bureau on the Statement of Net Cost would be inconsistent with the reporting of the related Federal tax revenue and would materially distort the costs incurred by the Bureau in meeting its strategic objectives. Further, since this activity is not reported on the Statement of Net Cost, it would be contradictory to report the budget authority on the Statement of Budgetary Resources.

Note 15. Apportionment Categories of Obligations Incurred

Obligations Incurred as of September 30, 2015 and 2014 consisted of the following (in thousands):

Fiscal Year	Apportionment Category	Direct Obligations	Reimbursable Obligations	Total Obligations Incurred
2015	Category B	$99,751	$6,155	$105,906
2014	Category B	$100,377	$6,203	$106,580

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

Obligations Incurred 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.

	2015	2014
Undelivered Orders, End of Year	$14,811	$15,742

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 2015 and FY 2014, TTB collected $22.3 billion and $22.2 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 Fish and Wildlife Restoration Fund under provisions of the Pittman-Robertson Act of 1937.

- **Refunds and Other Payments**

  During FY 2015 and FY 2014, TTB issued $685 million and $669 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 revenue, application, and product integrity investigations of large alcohol and tobacco industry members. In addition to application investigations, TTB investigates medium and small alcohol and tobacco producers in response to specific problems and risk indicators. Revenue investigations 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 investigations 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, $3.1 and $3.0 million in FY 2015 and FY 2014 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, 2015 and 2014 consisted of the following (in thousands):

	2015	2014
Alcohol and Tobacco Excise Tax Refunds	$27,776	$40,600
Drawbacks on MNBP Claims	306,640	316,040
Interest and Other Payments	151	358
Refunds and Drawbacks	334,567	356,998
Cover-over Payments - Puerto Rico	343,429	303,457
Cover-over Payments - Virgin Islands	7,093	8,279
Amounts Provided to Non-federal Entities	350,522	311,736
Total Refunds, Drawbacks and Coverover Payments	$685,089	$668,734

Note 17. Custodial Revenue

Collection and Disposition of Custodial Revenue as of September 30, 2015 and 2014 consisted of the following (in thousands):

FY 2015 Collections and Refunds by Tax Year and Type

Revenue Type	2015	2014	2013	Pre-2013	FY 2015 Total
Excise Taxes	$16,310,546	$5,926,009	$3,927	$16,802	$22,257,284
Fines, Penalties, Interest and Other	572	470	267	628	1,937
Total Revenue Received	16,311,118	5,926,479	4,194	17,430	22,259,221
Less: Amounts Collected for Non-federal Entities	(350,522)	-	-	-	(350,522)
Total	$15,960,596	$5,926,479	$4,194	$17,430	$21,908,699
Refund Type					
Excise Taxes	$158,696	$172,085	$2,158	$1,495	$334,434
Fines, Penalties, Interest and Other	2	91	28	12	133
Total Refunds & Drawbacks	158,698	172,176	2,186	1,507	334,567
Amounts Provided to Fund the Federal Government	$15,801,898	$5,754,303	$2,008	$15,923	$21,574,132

FY 2014 Collections and Refunds by Tax Year and Type

Revenue Type	2014	2013	2012	Pre-2012	FY 2014 Total
Excise Taxes	$16,173,032	$6,066,859	$1,647	$4,913	$22,246,451
Fines, Penalties, Interest and Other	266	37	98	536	937
Total Revenue Received	16,173,298	6,066,896	1,745	5,449	22,247,388
Less: Amounts Collected for Non-federal Entities	(311,736)	-	-	-	(311,736)
Total	$15,861,562	$6,066,896	$1,745	$5,449	$21,935,652
Refund Type					
Excise Taxes	$184,627	$165,829	$3,385	$2,957	$356,798
Fines, Penalties, Interest and Other	1	142	20	37	200
Total Refunds & Drawbacks	184,628	165,971	3,405	2,994	356,998
Amounts Provided to Fund the Federal Government	$15,676,934	$5,900,925	$(1,660)	$2,455	$21,578,654

Note 18. Reconciliation of Net Cost of Operations to Budget

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

Reconciliation of Net Cost of Operations to Budget, as of September 30, 2015 and 2014 consisted of the following (in thousands):

	2015	2014
Resources Used to Finance Activities		
Budgetary Resources Obligated		
Obligations Incurred	$105,906	$106,580
Less: Spending Authority from Offsetting Collections and Recoveries	(7,337)	(8,138)
Obligations Net of Offsetting Collections and Recoveries	98,569	98,442
Less: Offsetting Receipts	(6)	(903)
Net Obligations	98,563	97,539
Other Resources		
Transfers-in without Reimbursement	-	49
Imputed Financing from Costs Absorbed by Others	3,520	4,175
Other Resources	(2)	-
Net Other Resources Used to Finance Activities	3,518	4,224
Total Resources Used to Finance Activities	$102,081	$101,763

	2015	2014
Resources Used to Finance Items not Part of the Net Cost Of Operations		
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered but not Yet Provided (+/-)	$(939)	$2,284
Resources that Fund Expenses Recognized in Prior Periods	25	32
Other Budgetary Offsetting Collections and Receipts that do not Affect Net Cost of Operations	(6)	(854)
Resources that Finance the Acquisition of Assets	1,733	2,279
Other Resources or Adjustments to Net Obligated Resources that do not Affect Net Cost of Operations (+/-)	-	(949)
Total Resources Used to Finance Items not Part of the Net Cost of Operations	813	2,792
Total Resources Used to Finance the Net Cost of Operations	$101,268	$98,971
Components of the Net Cost of Operations Requiring or Generating Resources in Future Periods		
Components Requiring or Generating Resources in Future Periods:		
Other (+/-)	$33	$218
Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods	$33	$218
Components of the Net Cost of Operations not Requiring or Generating Resources		
Depreciation and Amortization	$4,151	$4,119
Revaluation of Assets or Liabilities	4	87
Other (+/-)	1	-
Total Components of Net Cost of Operations that will not Require or Generate Resources	$4,156	$4,206
Total Components of Net Cost of Operations that will not Require or Generate Resources in the Current Period	$4,189	$4,424
NET COST OF OPERATIONS	$105,457	$103,395

Note 19: Contingent Liabilities

As of September 30, 2015, TTB is not party to any legal matters where the likelihood of a material loss is reasonably possible.

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
2006	$7,182,940	$7,350,058	$249,578	$2,895	$638	$146	$14,786,255
2007	7,232,138	7,194,081	287,835	2,808	-	32	14,716,894
2008	7,420,576	6,851,705	312,622	448	-	634	14,585,985
2009	7,424,292	11,548,504	452,693	272	1,192,375	970	20,619,106
2010	7,476,789	15,913,479	360,813	300	8,558	180	23,760,119
2011	7,594,330	15,515,073	344,262	268	5,220	2,257	23,461,410
2012	7,856,391	15,002,616	514,622	249	5,942	61	23,379,881
2013	7,851,953	14,321,017	762,836	280	1,521	38	22,937,645
2014	7,924,951	13,552,711	768,927	332	465	2	22,247,388
2015	7,997,467	13,620,497	638,518	288	2,444	7	22,259,221
Average	$7,596,183	$12,086,974	$469,271	$814	$121,716	$433	$20,275,390

FAET – Firearms and Ammunition Excise Tax

SOT – Special Occupational Tax

FST – Floor Stocks Tax

TTB collects FAET taxes on behalf of the Department of Interior, U.S. Fish and Wildlife Service, and deposits the collections directly into the Fish and Wildlife Restoration Fund. During fiscal years 2015 and 2014, TTB incurred $1.6 million and $2.2 million respectively of direct and indirect costs associated with collecting the FAET taxes. The law currently does not provide for TTB to recover these costs. The cost of the program was communicated to the U.S. Fish and Wildlife Service so the agency could properly record an imputed cost in its financial records.

Refunds, Cover-over Payments, and Drawback Payments

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

Fiscal Year	Cover-over Puerto Rico	Cover-over Virgin Islands	A&T Excise Tax	Drawbacks MNBP Claims	Interest and Other	Total
2006	$358,664	$6,491	$17,524	$337,632	$699	$721,010
2007	459,278	8,054	13,208	335,706	972	817,218
2008	373,418	7,615	14,125	283,462	2,938	681,558
2009	472,695	8,624	17,791	268,612	252	767,974
2010	378,186	8,871	28,232	297,596	315	713,200
2011	452,040	9,592	33,414	306,584	418	802,048
2012	376,373	9,337	30,293	289,330	3,824	709,157
2013	349,017	8,706	35,278	345,231	452	738,684
2014	303,457	8,279	40,600	316,040	358	668,734
2015	343,429	7,093	27,776	306,640	151	685,089
Average	$386,656	$8,266	$25,824	$308,683	$1,038	$730,467

A&T – Alcohol and Tobacco

MNBP – Manufacturer of Nonbeverage Products

Other Accompanying Information (Unaudited)

Other Accompanying Information
Schedule of Spending
For the Years Ended September 30, 2015 and 2014
Unaudited (In Thousands)

	2015	2014
What Money is Available to Spend		
Total Resources	$111,070	$110,853
Less: Amount Available but not Agreed to be Spent	(1,573)	(400)
Less: Amount Not Available to Be Spent	(3,591)	(3,873)
Total Amounts Agreed to be Spent	$105,906	$106,580
How was the Money Spent		
Collect the Revenue		
Object Class 11: Personnel Compensation	$23,637	$23,250
Object Class 12: Personnel Benefits	7,342	6,834
Object Class 21: Travel	1,347	1,130
Object Class 23: Rent, Utilities, and Telecommunications Services	2,961	2,985
Object Class 25: Contractual Services	16,657	16,045
Object Class 31: Equipment and Software	2,531	1,819
Other	585	630
Total Collect the Revenue	55,060	52,693
Protect the Public		
Object Class 11: Personnel Compensation	23,902	24,026
Object Class 12: Personnel Benefits	7,173	6,898
Object Class 21: Travel	581	496
Object Class 23: Rent, Utilities, and Telecommunications Services	2,678	2,786
Object Class 25: Contractual Services	13,376	12,525
Object Class 31: Equipment and Software	1,305	1,376
Other	372	533
Total Protect the Public	49,387	48,640
Total Spending	104,447	101,333
Change in Amounts Remaining to be Spent	1,459	5,247
Total Amounts Agreed to be Spent	$105,906	$106,580

Intragovernmental Assets

Other Accompanying Information
Intragovernmental Assets
As of September 30, 2015
Unaudited (In Thousands)

Trading Partner	Agency Code	Fund Balance W/ Treasury	Accounts Receivable
Department of Agriculture	12	$ -	$19
Department of the Treasury	20	-	229
Department of Health and Human Services	75	-	27
General Fund	--	43,215	14,209
Total		$43,215	$14,484

Other Accompanying Information
Intragovernmental Assets
As of September 30, 2014
Unaudited (In Thousands)

Trading Partner	Agency Code	Fund Balance W/ Treasury	Accounts Receivable
Department of the Treasury	20	$ -	$1,263
General Fund	--	35,545	1,127
Total		$35,545	$2,390

Intragovernmental Liabilities

Other Accompanying Information
Intragovernmental Liabilities
As of September 30, 2015
Unaudited (In Thousands)

Trading Partner	Agency Code	Accounts Payable	Accrued FECA	Custodial and Other Liabilities
Government Printing Office	04	$95	$ -	$ -
Department of the Interior	14	-	-	4,946
Department of Justice	15	385	-	-
Department of Labor	16	-	26	-
US Postal Service	18	11	-	-
Department of the Treasury	20	56	-	-
Office of Personnel Management	24	-	-	289
General Services Administration	47	289	-	-
Department of Defense	97	67	-	-
General Fund	--	-	-	21,222
Total		$903	$26	$26,457

Other Accompanying Information
Intragovernmental Liabilities
As of September 30, 2014
Unaudited (In Thousands)

Trading Partner	Agency Code	Accounts Payable	Accrued FECA	Custodial and Other Liabilities
Government Printing Office	04	$69	$ -	$ -
Department of the Interior	14	-	-	5,745
Department of Justice	15	543	-	-
Department of Labor	16	-	29	-
Office of Personnel Management	24	-	-	235
General Services Administration	47	294	-	-
Department of Homeland Security	70	46		-
Department of Defense	97	67	-	-
General Fund	--	-	-	25,257
Total		$1,019	$29	$31,237

Intra-governmental Earned Revenue

Other Accompanying Information
Intragovernmental Earned Revenue
For the Fiscal Years Ended September 30, 2015 and 2014
Unaudited (In Thousands)

Trading Partner	Agency Code	2015	2014
Department of Agriculture	12	$18	$ -
Department of Treasury	20	2,951	2,560
Department of Health and Human Services	75	109	-
Total		$3,078	$2,560

Budget Function Classification (BFC)	BFC Code	2015	2014
Central Fiscal Operations	803	$3,078	$2,560
Total		$3,078	$2,560

Intragovernmental Gross Cost

Other Accompanying Information
Intragovernmental Gross Cost
For the Fiscal Years Ended September 30, 2015 and 2014
Unaudited (In Thousands)

Trading Partner	Agency Code	2015	2014
Library of Congress	03	$63	$72
Government Printing Office	04	211	145
Department of Commerce	13	2	-
Department of Interior	14	44	40
Department of Justice	15	794	754
Department of Labor	16	27	33
United States Postal Services	18	35	41
Department of the Treasury	20	5,437	5,268
Office of Personnel Management	24	13,149	12,981
Federal Trade Commission	29	-	1
General Services Administration	47	5,127	5,229
Department of Homeland Security	70	284	277
Department of Health and Human Services	75	34	24
National Archives Records Administration	88	56	44
Department of Defense	97	38	80
General Fund	--	3,137	3,063
Total		$28,438	$28,052

During fiscal years 2015 and 2014, TTB incurred costs with other Federal agencies totaling approximately $28.4 million and $28.1 million, in each year respectively. The majority of those costs were associated with the five entities detailed below.

- **Department of Justice:** TTB paid ATF $794,000 and $754,000 in fiscal years 2015 and 2014 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 2015 and 2014 in the amounts of $5.4 million and $5.3 million respectively.

- **Office of Personnel Management:** TTB incurred $13.1 million and $13.0 million in costs for employee benefits for fiscal years 2015 and 2014 respectively.
- **General Services Administration:** TTB paid $5.1 million and $5.2 million to GSA for rent and information technology services in fiscal years 2015 and 2014 respectively.
- **General Fund:** The Bureau paid $3.1 million in each of fiscal years 2015 and 2014 respectively for employee benefits and lockbox fees.

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Part IV: Appendices

Principal Officers of TTB

Administrator	John Manfreda
Deputy Administrator	Mary Ryan
Chief of Staff	Elisabeth Kann
Assistant Administrator, Field Operations	Tom Crone
Assistant Administrator, Headquarters Operations	Theresa McCarthy
Assistant Administrator, Management/CFO	Cheri Mitchell
Assistant Administrator, Information Resources/CIO	Robert Hughes
Executive Liaison for Industry and State Matters	Susan Evans
Equality, Diversity, and Inclusion	Tram-Tiara Ngo
Strategic Planning and Program Evaluation	Jill Murphy
Congressional and Public Affairs	Tom Hogue
Chief Counsel	Anthony Gledhill

For additional information, contact:

Alcohol and Tobacco Tax and Trade Bureau

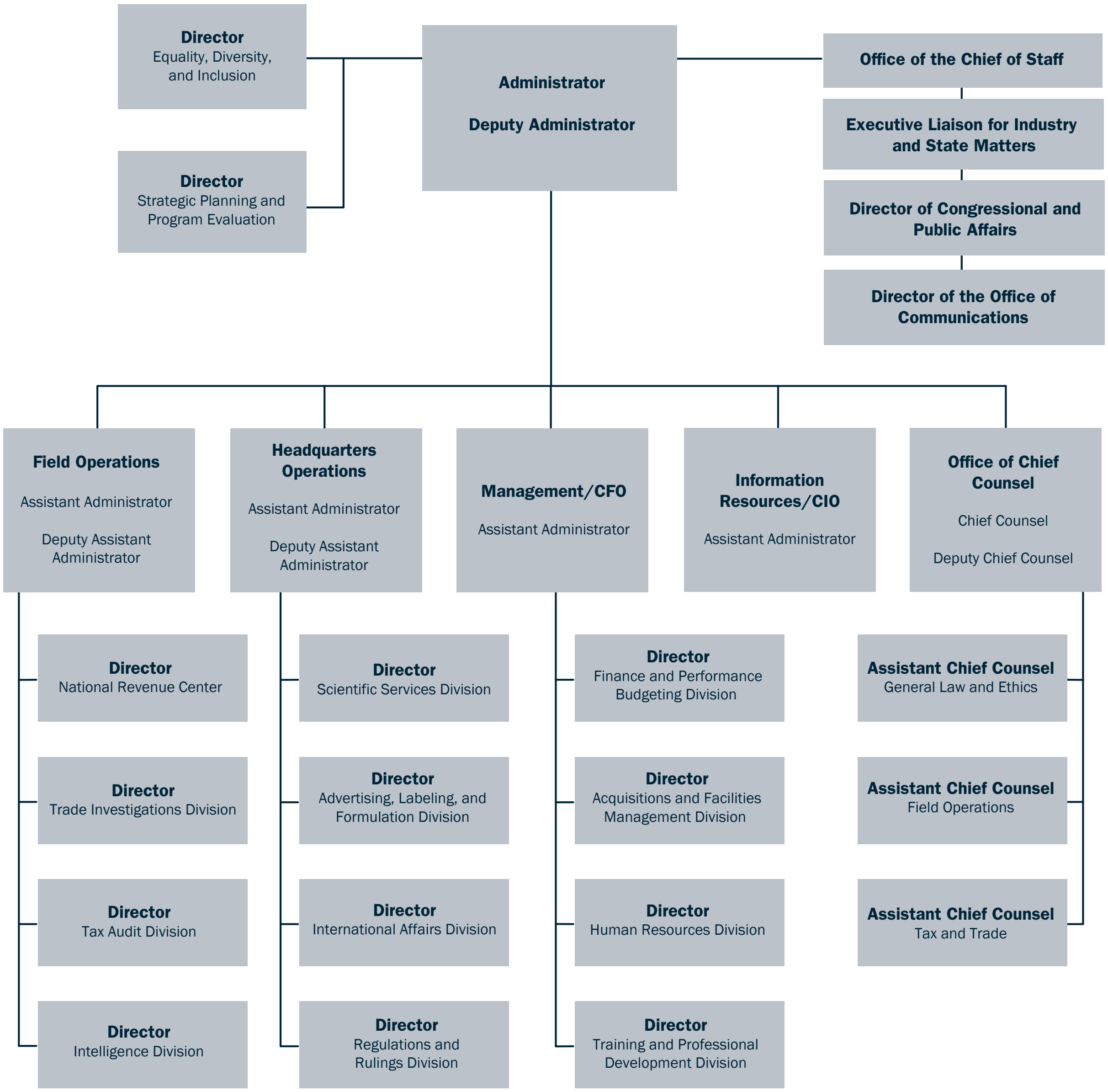
1310 G Street, NW, Box 12

Washington, DC 20005

(202) 453-2000

http://www.ttb.gov

TTB Organization Chart



Connecting the Treasury and TTB Strategic Plans

TREASURY GOALS	TTB STRATEGIC GOALS	TTB OBJECTIVES
TREASURY STRATEGIC GOAL: Promote domestic economic growth and stability while continuing reforms of the financial system	**PROTECT THE PUBLIC (PTP):** Alcohol and tobacco industry operators meet permit qualifications, and alcohol beverage products comply with federal production, labeling, and marketing requirements	**PTP 1. BUSINESS INTEGRITY:** Ensure that only qualified persons and business entities operate within the industries TTB regulates **PTP 2. PRODUCT INTEGRITY:** Ensure that alcohol beverage products comply with federal production, labeling, and advertising requirements **PTP 3. MARKET INTEGRITY:** Ensure fair trade practices throughout the alcohol beverage marketplace
TREASURY STRATEGIC GOAL: Fairly and effectively reform and modernize federal financial management, accounting, and tax systems	**COLLECT THE REVENUE (CTR):** Enforce the tax code to ensure proper federal tax payment on alcohol, tobacco, firearms, and ammunition products	**CTR 1. TAX VERIFICATION AND VALIDATION:** Assure voluntary compliance in the timely and accurate remittance of tax payments **CTR 2. CIVIL AND CRIMINAL ENFORCEMENT:** Detect and address noncompliance, excise tax evasion, and other criminal violations of the Internal Revenue Code in the industries TTB regulates
TREASURY STRATEGIC GOAL: Create a 21st–century approach to government by improving efficiency, effectiveness, and customer interaction	**MANAGEMENT AND ORGANIZATIONAL EXCELLENCE (MGT):** Maximize performance, efficiency, and program results through effective resource and human capital management	**MGT 1. HUMAN CAPITAL MANAGEMENT:** Maintain a qualified, engaged, and satisfied workforce **MGT 2. TECHNOLOGY SOLUTIONS:** Deliver effective, streamlined, and flexible IT solutions that add value and support program performance **MGT 3. FINANCE AND PERFORMANCE RESULTS:** Facilitate strategic management and financial accountability through the delivery of timely and reliable financial and performance information

Note: *TTB revised its goals and objectives in FY 2012, and is operating under these goals until the publication of its revised strategic plan.*

WWW.TTB.GOV

Treasury OIG Website

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

Report Waste, Fraud, and Abuse

OIG Hotline for Treasury Programs and Operations – Call toll free: 1-800-359-3898
Gulf Coast Restoration Hotline – Call toll free: 1-855-584.GULF (4853)
Email: Hotline@oig.treas.gov
Submit a complaint using our online form:
https://www.treasury.gov/about/organizational-structure/ig/Pages/OigOnlineHotlineForm.aspx