



2001 M Street, N.W.
Washington, D.C. 20036

Independent Auditors' Report on Internal Control over Financial Reporting

Director
Bureau of Alcohol, Tobacco and Firearms:

Office of Inspector General
U. S. Department of the Treasury:

We have examined the effectiveness of the Bureau of Alcohol, Tobacco and Firearms' (ATF's), internal control over financial reporting for its Revenue/Accounts Receivable/Cash Receipts; Procurement/Accounts Payable/Cash Disbursements; Property, Plant and Equipment; and Payroll accounting cycles (the processes), as of and for the year ended September 30, 2002, based on the *Standards for Internal Control in the Federal Government* (the Standards), issued by the General Accounting Office (GAO) in November 1999. ATF's management is responsible for maintaining effective internal control over financial reporting for these processes. Our responsibility is to express an opinion on the effectiveness of internal control over these processes based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included obtaining an understanding of the internal control over financial reporting for the processes, testing and evaluating the design and operating effectiveness of internal control, and performing other such procedures we considered necessary under the circumstances. We believe that our examination provides a reasonable basis for our opinion.

Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of internal control over financial reporting for the processes to future periods are subject to the risk that the internal control may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, ATF has maintained, in all material respects, effective internal control over financial reporting for its Revenue/Accounts Receivable/Cash Receipts; Procurement/Accounts Payable/Cash Disbursements; Property, Plant and Equipment; and Payroll accounting cycles as of and for the year ended September 30, 2002, based on the Standards referred to above.

However, we noted two reportable conditions related to information technology general and application controls and other matters involving internal control over financial reporting for these processes that we have reported to the management of ATF in two separate letters dated November 8, 2002.

This report is intended solely for the information and use of the ATF's management, the U.S. Department of the Treasury Office of Inspector General, Office of Management and Budget, and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 8, 2002



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