

Department of the Treasury

ATF Accountability Report 2001

Working for a Sound and Safer America. . .
Through Innovation and Partnership



Director's Message



While tragic events have occurred which have changed us, we continue to move forward as a country and as a Bureau, and this annual report gives an accounting of our programs and policies. ATF continues to strive for and achieve excellence. Through a number of programs encompassing the mission of reducing violent crime, collecting the revenue, and protecting the public, ATF works hard for the American people on a daily basis.

Through congressional funding, we have broadened our base of agents and inspectors and are better able to enforce the laws and regulations as they pertain to alcohol, tobacco, firearms, arson, and explosives. Two crucial programs, the Integrated Violence Reduction Strategy and the Youth Crime Gun Interdiction Initiative enabled us to be even stronger partners with other Federal, State, and local agencies.

In Fiscal Year 2001, as before, ATF is forging a path for e-government and e-commerce, assisting the tax paying community in filing timely. In addition, the talents of the regulatory and enforcement components have been brought to bear in a strong show against tobacco smuggling and other regulatory related criminal enterprises.

The buildings that will house ATF employees in the Washington Metro area are moving forward in their construction. The ATF National Laboratory in Beltsville, Maryland, and our Headquarters in Washington, DC, are progressing and will be known for their state-of-the-art construction encompassing safety, functionality, and beauty in design.

This year has brought to bear many successes for the Bureau, but they cannot stand without acknowledging the dedication and hard work of ATF employees. It is the commitment of every person in this Bureau that enables us to move forward as an agency, and carry out our critical mission throughout the United States and the world. The employees of ATF make this agency what it is. I am proud to serve as their Director.

Bradley A. Buckler

Message from the Chief Financial Officer



Our summary of the fiscal year past comes with the specter of a closing month that has changed our lives forever. The staff of our 6 World Trade Center New York Field Division demonstrated the values and training that allowed them to survive the terrorist attack without the loss of life or serious injury. ATF responded with distinction to New York, Washington and Pennsylvania. Our accomplishments catalogued here serve as a reminder of the important work that must continue to keep our nation strong and resilient.

Our accomplishments over the past year have been examples of new thinking about ongoing needs. As we welcomed new political leadership, we looked to this change as an opportunity to reemphasize excellent programs and innovative solutions. We were the first Government bureau to pilot Pay.Gov, a paperless method for taxpayers to pay monthly excise taxes. We piloted six tobacco companies, who paid \$1.9 billion in excise taxes for fiscal year 2001. We plan to make all of our public use forms available through Pay.gov.

Late this fiscal year, we expanded our use of new plastic card technologies to include on-the-spot awards to employees, eliminating the paper form. An award recipient uses the card to withdraw cash from an ATM without waiting for the funds to be deposited in his/her account.

Fiscal year 2002 will include a bureau-wide upgrade of all computer equipment.

After ATF's six straight Unqualified Audit Opinions, the Secretary of the Treasury requested, and was granted, a waiver from the CFO Audit process for ATF. KPMG will perform a review of the annual financial statements. Even without the prospect of an audit, our skilled and dedicated employees continued the drive toward excellence that has served us so well in the past.

This annual report is more than a collection of workload statistics and dollar signs. It is the continuing story of ATF's family of talented and dedicated men, women, and even a few canines; all striving to keep America safe and sound. The various media have continued to chronicle our achievements this past year.

Please read and enjoy our story. We are very proud of our accomplishments and humbled by the trust that you have placed in us to manage your resources.

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A handwritten signature in black ink that reads "William J. Earle". The signature is written in a cursive, flowing style.

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2001 Highlights

Reduce Violent Crime

- ‡ ATF and the National Shooting Sports Foundation (NSSF) partnered to create a two-pronged educational campaign, entitled “Don’t Lie for the Other Guy,” in an effort to prevent prohibited individuals from obtaining firearms. This campaign is intended to discourage people from illegally purchasing firearms on behalf of others who are unable to legally possess them. Moreover, it heightens awareness of these illegal sales among licensed dealers. The campaign involves the mailing of kits to firearms retailers that contain posters, pamphlets, and other printed material provided by the NSSF, and a series of educational seminars in several locations for Federal firearms licensees conducted by ATF and the NSSF.
- ‡ Since October 1, 2000, the Office of Management’s Recruitment Center hired 367 special agents, 184 inspectors, and 310 support personnel, from internal and external candidates, for a total of 861 hires.
- ‡ During FY 2001, ATF initiated approximately 18,500 criminal investigations and recommended 10,206 individuals for prosecution to the U.S. Attorney’s Office. Thus far, there have been 5,956 convictions.
- ‡ ATF expanded its Integrated Violence Reduction Strategy in conjunction with the administration’s “Project Safe Neighborhoods.” These comprehensive firearms enforcement strategies are tailored to the needs of individual judicial districts and unique gun violence problems. This strategy calls for the creation of over 40 satellite offices nation-wide.
- ‡ More than 950 matches were produced by the National Integrated Ballistic Information Network (NIBIN), many of which resulted in investigative leads.

One illustration of the power of automated ballistics technology comes from Boston,

where Police Department policy requires that all firearms evidence be entered into the NIBIN system. After a suspect was stopped with a handgun (a criminal offense in Boston) and the seized weapon was test-fired, links were found between the weapon and a total of 15 incidents in which 10 people had been injured. These incidents occurred in four jurisdictions in two States over the course of a year. NIBIN produced critical evidence for police investigation into these otherwise seemingly unrelated incidents.

- ‡ ATF appointed a domestic violence coordinator to implement strategies for pursuing violations of 18 U.S.C. section 922(g)(8) (firearms prohibition and protective orders) and section (g)(9) (firearms prohibitions and misdemeanor crimes of domestic violence). In collaboration with the National Center for State Courts and Department of Justice’s Violence Against Women Office, ATF developed and published informational material to present to State court judges that explains the Federal firearms prohibitions. The material, which is presented at Regional State court judge training seminars, has been very well received. In addition, ATF participated in various training workshops related to domestic violence, including regional training for clerks of the court, assistant U.S. attorney seminars, and the International Association of Chiefs of Police.
- ‡ ATF participated in negotiations involving the United Nations (UN) Protocol Against the Illicit Manufacturing of and Trafficking in Firearms, Their Parts, Components, and Ammunition. ATF played a key role by providing legal and technical advice on issues such as firearms marking, tracing, manufacturing and licensing. This international treaty, aimed at assisting the United States and the international law enforcement community, was approved without vote by the UN General Assembly.
- ‡ At the UN Conference on Small Arms and Light Weapons, ATF provided legal and

technical assistance to the Department of State and Department of Defense in matters relating to the manufacture, licensing, marking, and importation of firearms. A program of action was developed and agreed upon by the United States and delegations from over 140 nations that outlines measures to be taken in combating the illicit international production and trade in small arms and light weapons. Such measures include fostering greater cooperation among nations and the criminalization of the illegal trade in firearms.

- ‡ Designed, developed, and delivered Critical Incident Decision-making Training to all division directors. Designed to address the decision-making process during critical incidents, this course reviews the significance of the relationship between overall command of an incident and the command of the tactical response functions. It includes discussions covering the role of policy and procedure in managing tactical operations and assets and principles of commanding situations of risk and their application to tactical operations. Jurisdictional, legal, and media relations issues are also addressed.
- ‡ Developed and delivered a pilot Command and Control class for GS-1811 (Special Agent) first-line supervisors. This course provides instruction on operational topics from a first-line supervisor's perspective. It focuses primarily on planning and execution of "street" operations; including search warrants, arrest warrants, undercover operations, critical incident crime scene control, on-scene command, surveillance, Title III wiretaps, and tactical risk assessment.
- ‡ Conducted two seminars for ATF Youth Crime Gun Interdiction Initiative (YCGII) coordinators and their State and local counterparts. These seminars trained 150 special agents and local law enforcement officers, and have increased the awareness of and participation in comprehensive crime gun tracing by each attending agency.
- ‡ In May 2001, officially opened a state-of-the-art training facility in Front Royal, Virginia, for

accelerant and explosives detection canines for State, local, and international law enforcement.

- ‡ Developed and disseminated the InterFire training CD-ROM, a computerized virtual reality training tool for fire investigators at every level. This training CD complements the InterFire website, which provides a continuously updated resource for in-depth information on fire investigation methodologies, training and research. Also, began work on a post-blast investigation training CD-ROM similar to InterFire, which is expected to be completed and disseminated in mid-FY 2002.

Collect Revenue

- ‡ Collected \$14.1 billion in revenue generated from Federal excise taxes imposed on alcohol, tobacco, firearms, and ammunition.
- ‡ Investigated 217 diversion cases of alcohol and tobacco products, resulting in 43 defendants recommended for prosecution and \$1.86 million in seized property credited to the Treasury Asset Forfeiture Fund.
- ‡ Conducted 1,097 inspections at revenue producing plants, resulting in 693 violations and \$4.2 million in additional excise taxes assessed.
- ‡ Delivered a 3-week specialized training course for new revenue specialists at the National Revenue Center, Cincinnati, Ohio. This training provided them with the knowledge and skills needed to perform their duties. One class was delivered to 24 students.
- ‡ Created the e-Government Program Office with the mission to improve the Bureau's efficiency and reduce burden on customers.
- ‡ Partnered with the Financial Management Service to participate in the Pay.Gov pilot program, allowing six tobacco manufacturers to file tax returns electronically under a pilot program.
- ‡ Processed 11 offers-in-compromise resulting in \$514,939 being paid.

Protect the Public

- ‡ Suspended the operations of an alcohol importer for 45 days resulting from numerous wine labeling violations.
- ‡ Settled 12 labeling and advertising investigations, for a total of \$454,500 in offers-in-compromise.
- ‡ Was instrumental in negotiating a Mutual Acceptance Agreement on enological practices with the New World Wine Producing Countries, which will greatly facilitate wine trade between the participating countries once the agreement goes into effect.
- ‡ Expanded the alcohol-sampling program by selecting 23 Field Divisions and focusing on imported and cultural products, resulting in the collection of 654 samples. Tested 556 of the 654 samples selected, with 173 products found not in compliance with regulations.
- ‡ Found and corrected a total of 1,209 public safety violations during explosives compliance inspections.
- ‡ Maintained “FFL eZ Check” – an on-line Federal firearms license authenticator website - to reach out to and develop new working relationships with the firearms industry and consumers, and to strengthen existing relationships. Online “FFL eZ Check” aids the firearms industry in preventing the fraudulent use of their licenses by individuals who alter copies of licenses to illegally acquire and supply firearms to criminals and youths. The web site allows a Federal firearms licensee who is presented a copy of a Federal firearms license to verify or authenticate the license prior to shipping or disposing of a firearm(s) to the licensee. The web site verifies the information shown on the license.
- ‡ Continued developing a highly trained cadre of ATF explosives enforcement officers qualified to dive for improvised explosive devices (IEDs). They are frequently called upon by State and local law enforcement agencies and ATF agents to support criminal investigations.

Bureau-wide Programs

- ‡ Ground was broken at the new Laboratory and Fire Center in Ammendale, MD and construction is underway. The target occupancy date is December 2002.

Also, the new Headquarters Building architect presented design concepts for ATF’s new building to be located at Florida and New York Avenues, N.E., Washington, D.C. The location will provide a significant landmark for the Federal Government at a newly revitalized core development area in the city. Site work has begun, and construction will begin in FY 2002. The target occupancy date is early FY 2005.
- ‡ Transitioned the Frame Relay Network from AT&T FTS2000 to Treasury Contract-provided Qwest services. The transition included restructuring the communication hub to the new ATF data facility in Martinsburg, West Virginia. This restructuring and transition of the data network provides the infrastructure for moving the ATF Headquarters building in 2005 without interruption of service and downtime. The re-engineering effort provides backup and enhanced stability to the network, which gives ATF the ability to support many significant bureau software engineering investments as the National Field Office Case Information System (N-FOCIS), Forensics Automated Case and Exam Tracking System (FACETS), Firearms Tracing System (FTSWEB), and Online-LEAD.
- ‡ Continued Advanced Explosives Destruction Techniques training (AEDT) for State and local certified bomb technicians and ATF certified explosive specialists. This training provides advanced instruction in the areas of destruction and disposal of bulk explosives, deteriorated explosives, fireworks, ammunition, and precursor chemicals. This much-needed course was implemented following a number of fatalities to bomb technicians during disposal operations over the last 6 years.
- ‡ Distributed 100 inert explosive kits to ATF special agents throughout the United States.



A Connecticut State Police officer practices underwater search and recovery patterns with his diving mask blacked-out with aluminum foil, as part of the Underwater Explosives Recovery Specialist Course in Edmond, Oklahoma, conducted by ATF and the Edmond Police Department.

The kits will be used to educate law enforcement and civilian groups in the recognition and danger of explosives.

- ‡ The Office of Field Operations implemented the Field Flexi-Place Pilot Project, an innovative work-at-home project that enables Inspectors to perform all or part of their official duties at work sites set up in their residences.
- ‡ During the horrific events of September 11, ATF was able to glean a few “victories.” Of significant importance, was the Bureau’s safe evacuation, without accident or injury, of the employees of the New York Field Division, located in World Trade Center 6. Part of that victory was the speedy and effective relocation and restoration to full operations of that Field Division. Within hours of the attack, the Division had re-established Command Operations at an alternate site. Although New York network servers were destroyed, Division

operations were able to immediately reconnect with ATF’s nationwide network through a secure dial-up protocol.

- ‡ Another key victory was the mobilization of ATF resources in response to the attacks. Five hundred special agents and investigative assistants were provided to increase our ongoing support of the Joint Terrorism Task Force operations nationwide. Forty-five agents were detailed to the FAA Federal Air Marshal program for extended assignments. ATF activated two National Response Teams (NRTs) each to the World Trade Center, Pentagon and Pennsylvania crash sites. Special agents staffed the Strategic Intelligence Operations Center (SIOC) at FBI headquarters, the Secret Service Emergency Operations Center (EOC), and the ATF National Enforcement Operations Center (NEOC) on a 24/7 basis.

Also during this period, the ATF Explosives Canine Program employed three canine teams to assist the Secret Service with White House security and sweeps of other Federal buildings. ATF Certified Explosive Specialists (CESs) assisted the Secret Service White House Security Detail. ATF Special Agents supported the Secret Service and Capital Hill Police with security of Federal buildings nationwide. Inspectors and Special Agents from the Atlanta Field Division were assigned to assist at the FBI Investigative Lead Call Center in Atlanta. ATF focused arson and explosive investigative resources towards criminal acts specifically related to the Islamic community. ATF Inspectors continue to conduct an exhaustive effort to ensure that all explosive permittees and licensees are properly storing, securing and recording the transfer of, and reporting the loss or theft of, explosives. ATF screened files for information on the names provided on the “watch list” of potential terrorists and their associates, and focused attention on potential alcohol and tobacco products diversion in support of terrorist activities.



Artist renderings of the future Headquarters and Laboratory buildings.



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Vision

**“Working for a Sound and Safer America. . .
. . . Through Innovation and Partnerships”**

The Bureau of Alcohol, Tobacco and Firearms (ATF) must respond to the public outcry against crime, violence, and other threats to public safety. We must also continue to do our part to maintain the economic stability of the country. Our vision will help us chart the course to change the way we do business and achieve new levels of effectiveness and teamwork.

Mission

The Bureau of Alcohol, Tobacco and Firearms (ATF) is a law enforcement organization within the United States Department of the Treasury with a unique combination of responsibilities dedicated to reducing violent crime, collecting revenue, and protecting the public.

ATF Values

The Bureau of Alcohol, Tobacco and Firearms:
We value each other and those we serve.
We will:

- Set and uphold the highest standards of excellence and integrity;
- Provide quality service and promote strong external partnerships; and
- Develop a diverse, innovative, and well-trained work force in order to achieve our goals collectively.

ATF's Activities, Programs, and Performance Measures

Activity	Programs	Performance Measures
<p>Reduce Violent Crime: Effectively contribute to a safer America by reducing the future number and cost of violent crimes.</p>	<ul style="list-style-type: none"> • Deny criminals access to firearms. • Safeguard the public from arson and explosives incidents. • Remove violent offenders from our communities. • Prevent violence through community outreach. 	<ul style="list-style-type: none"> • Crime-related costs avoided. • Future crimes avoided. • Number of personnel trained in relation to the Integrated Violence Reduction Strategy (IVRS). • Number of firearms traces. • Average trace response time. • National Response Team customer satisfaction rating.
<p>Collect Revenue: Maintain a sound revenue management and regulatory system that continues reducing taxpayer burden, improves service, collects the revenue due, and prevents illegal diversion.</p>	<ul style="list-style-type: none"> • Reduce taxpayer burden and improve service. • Collect all the revenue that is rightfully due. • Prevent tax evasion and other criminal conduct in the regulated industries. 	<ul style="list-style-type: none"> • Taxes/Fees collected from alcohol, tobacco, firearms and explosives industries. • Ratio of taxes and fees collected vs. resources expended. • Percent of taxpayers who file excise tax returns and required monthly operating reports electronically.
<p>Protect the Public: Protect the public and prevent consumer deception in ATF's regulated commodities.</p>	<ul style="list-style-type: none"> • Assure the integrity of the products, people, and companies in the marketplace. • Ensure compliance with laws and regulations through education, inspection, and investigation • Inform the public. 	<ul style="list-style-type: none"> • Response to unsafe conditions and product deficiencies discovered (explosives). • Number of inspections (explosives). • Percent of population inspected (firearms). • The number of commodity seminars held.

Management's Discussion and Analysis

Mission and Organizational Structure

The Bureau of Alcohol, Tobacco and Firearms (ATF) is a Federal law enforcement organization that serves as the nation's expert on four highly regulated consumer products: alcohol, tobacco, firearms, and explosives. These products require special attention due to the important social consequences resulting from their misuse or abuse. ATF represents a uniquely concentrated resource for providing investigative; regulatory; tax collection; and technical, scientific, and legal expertise relating to these products. This unique combination of tools and skills allows ATF to provide a focused, flexible, and balanced approach to protecting the public's legitimate access to these commodities while fighting unlawful use and trafficking.

ATF's National Headquarters, located in Washington, DC, comprises offices that develop major policies and programs in accordance with the applicable laws and regulations that ATF enforces. ATF executive structure consists of the Director, Deputy Director, Chief Counsel, and the Assistant Directors for Field Operations; Firearms, Explosives and Arson; Alcohol and Tobacco; Inspection; Liaison and Public Information; Management/Chief Financial Officer; Science and Technology/Chief Information Officer; and Training and Professional Development. These executives form the core of the Bureau's Strategic Leadership Team and Investment Review Board. The Office of the Director includes the Deputy Director, Ombudsman, and Executive Assistants for Legislative Affairs, Equal Opportunity, and the Strategic Planning Office.

Geographically, ATF has offices in major U.S. cities and in Guam, Virgin Islands and Puerto Rico; with personnel assigned in Mexico, Canada, Colombia and France. The field structure comprises 23 Field Divisions strategically located throughout the United States, with a single executive heading each office and having responsibility for all law enforcement, industry regulation, and revenue

activities assigned within the Office of Field Operations. Plans are underway for field divisions to have on-site legal and forensic audit support and equal opportunity policy advisors. At this time, ATF has Counsel offices in 19 field divisions (Atlanta, Baltimore, Boston, Charlotte, Chicago, Columbus, Dallas, Detroit, Houston, Miami, Nashville, New Orleans, New York, Philadelphia, Phoenix, San Francisco, Seattle, Tampa, and Washington) and a Counsel office at the National Revenue Center. The Chief Counsel has also selected the Division Counsel, Los Angeles, whose office will open in FY 2002.

The Office of Equal Opportunity has five Equal Employment Opportunity (EEO) Managers, one each in San Francisco, Chicago, New York, Dallas and Atlanta. Each field division has been assigned to one of these EEO Managers.

In addition, ATF operates the following service centers and training facilities throughout the United States:

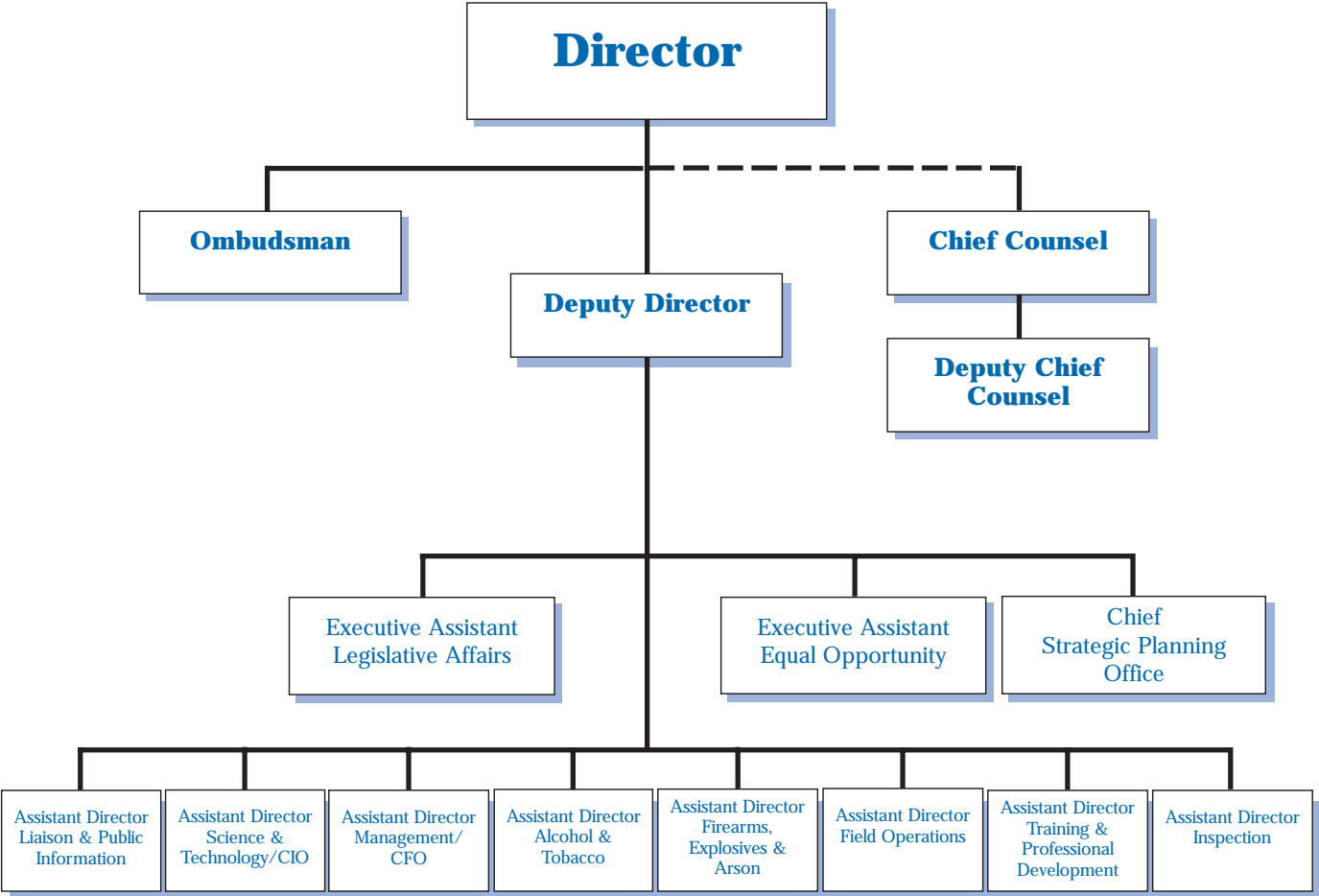
- National Tracing Center in Falling Waters, West Virginia
- National Licensing Center in Atlanta, Georgia
- National Revenue Center in Cincinnati, Ohio
- Laboratories in Maryland, Georgia, and California
- Canine Training Center in Front Royal, Virginia
- ATF Academy, located at the Federal Law Enforcement Training Center in Glynco, Georgia

As of September 30, 2001, ATF had 5,086 employees on board, 4,709 of which were full-time permanent employees. Additional information on ATF's programs is provided in the Management's Discussion and Analysis section of this report. ATF's Internet site also contains other supporting documentation and reference materials. It can be accessed at <http://www.atf.treas.gov>.

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Department of the Treasury
Bureau of Alcohol, Tobacco & Firearms
Executive Staff



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Major Challenges Facing ATF

Physical and Security Challenges in Preparing for and Mitigating Potential Terrorist Acts

ATF faces additional physical and security challenges as a result of the increased terrorist threat now facing our nation. To meet those challenges, ATF has identified specific requirements to prepare for and mitigate the effects of a future terrorist attack. Funds have been requested to provide operating capability for the Headquarters Emergency Center and Emergency Management Program Planning; a medical monitoring program to evaluate the physical and psychological impacts of terrorist events on our employees (including exposure to hazardous materials); and headquarters and field security enhancements.

As evidenced by recent terrorism acts, planning for mitigation of effects and prevention of losses are necessary for the government to continue. The recent terrorist assault highlighted the need for an employee medical monitoring program. It created a serious risk of ATF law enforcement and other personnel being exposed to hazardous products during the New York City World Trade Center incident and in subsequent investigations and related activities in New York and Washington, DC.

The importance of continually enhancing physical security cannot be overemphasized.

Continuity of Operations (COOP)

For two years prior to September 11, ATF had been working with Treasury's emergency preparedness staff to ensure continuity of ATF key operations during crises and identifying alternative COOP locations and necessary data systems enhancements. The September 11 terrorist attack and subsequent anthrax threat emphasized that these efforts need more work, particularly in the area of information recovery and backup systems that ensure continuity of operations without loss of data.

ATF faces the challenge of keeping employees safe and secure and in a constant state of readiness to react, through frequent drills and practical exercises. ATF has made emergency preparedness and continuity of operations a high priority in FY 2002 and will focus the necessary attention and resources to accomplishing these effectively and efficiently. ATF is using "lessons learned" from the events of September 11 to work toward a level of preparedness for any type of crisis situation.

e-Government Initiative

In FY 2002, ATF will begin using the Central Contractor Registration (CCR) program. In the past, a vendor wanting to do business with more than one Agency of the Federal government was required to submit information to each Agency. This redundancy of paperwork created administrative burdens for both the contractor and the government. The goal of the CCR is to become the single repository of vendor data for the entire Federal government and avoid administrative duplication, while allowing contractors to take responsibility for the accuracy of their business information by supplying it directly to the government through a single registration.



Photo Caption: Aerial view of the new National Laboratory Center site.

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Performance Goals and Results

Reduce Violent Crime

Through this activity, ATF enforces the provisions of the Gun Control Act of 1968, as amended; the National Firearms Act; the Brady Law; the Violent Crime Control and Law Enforcement Act of 1994; the Organized Crime Control Act of 1970; the Anti-Arson Act of 1982; the Church Arson Prevention Act of 1996; and the Antiterrorism and Effective Death Penalty Act of 1996. Because many Federal laws contain provision for mandatory extended sentences, ATF strives to increase State and local awareness of Federal prosecution available under these statutes.

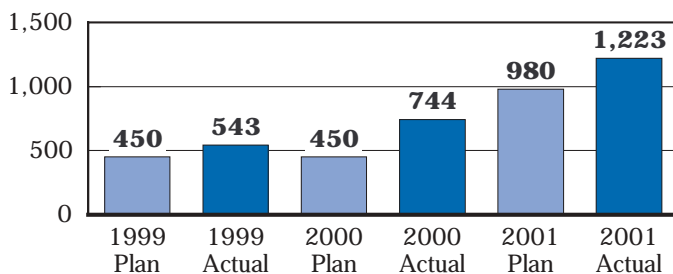
Strategic Goal: Effectively contribute to a safer America by reducing violent crimes.

Programs: This strategic goal is accomplished through four programs:

- **Deny Criminals Access to Firearms**
- **Safeguard the Public from Arson and Explosives Incidents**
- **Remove Violent Offenders from our Communities**
- **Prevent Violence through Community Outreach**

Performance Measure: Future Crimes Avoided.

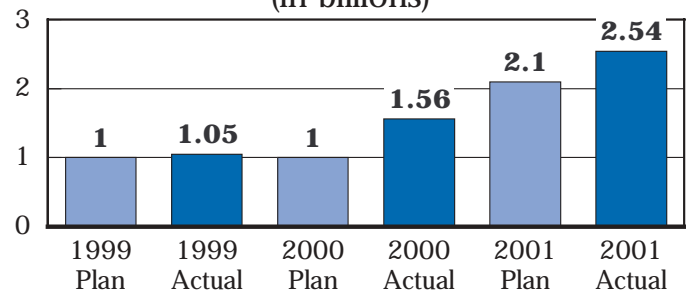
Future Crimes Avoided (000's)



This measure represents the number of crimes that are prevented when armed career criminals and firearms traffickers are incarcerated. The number of criminals sentenced is multiplied by the number of crimes that ATF projects these criminals would commit during the course of their incarceration. Measures refer to firearms-related programs only. In FY 2001, 1,222,624 crimes were avoided.

Performance Measure: Crime-related costs avoided (in billions).

Crime-related Costs Avoided (in billions)



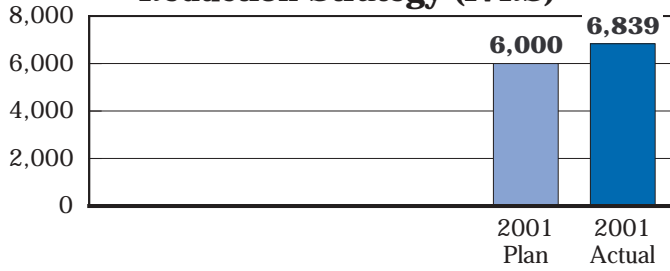
This measure tracks the estimated costs saved by incarcerating armed career criminals and firearms traffickers. Measures refer to firearms-related programs only.

The continued reduction could be contributed to an overall reduction in homicides, robberies, rapes, and aggravated assaults.

Performance Measure: Number of personnel trained in relation to the Integrated Violence Reduction Strategy (IVRS).

This measure captures data on training activities related to ATF's performance goal to deter and reduce gun violence and crime; specifically, aligning with the IVRS, developed and implemented by each ATF field division.

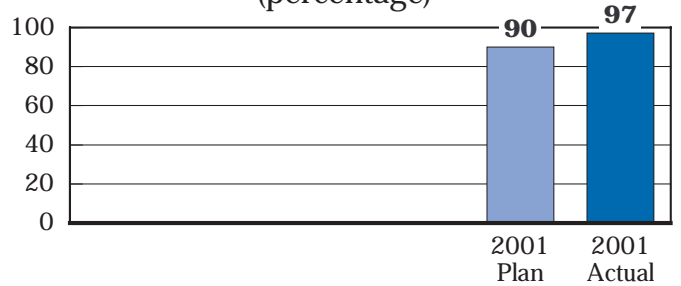
Number of Personnel Trained in Relation to the Integrated Violence Reduction Strategy (IVRS)



Performance Measure: National Response Team customer satisfaction rating.

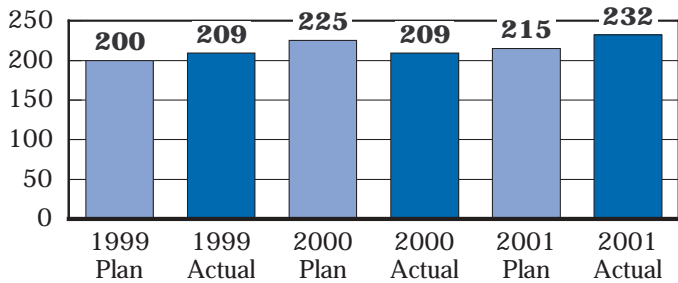
This measure reflects the average numerical score provided by customers on ATF's customer satisfaction survey.

NRT Customer Satisfaction Rating (percentage)



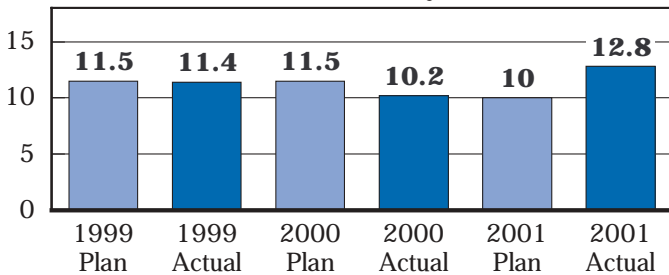
Performance Measure: Number of firearms trace requests.

Number of Firearms Traces (000's)



Performance Measure: Average trace response time (# of days).

Average Trace Response Time (number of days)



Program: Deny Criminals Access to Firearms

Illegal Firearms Trafficking

ATF reduces the criminal availability of firearms by identifying illegal sources of firearms and recommending prosecution of illegal firearms traffickers. Overall goals include investigating the most active illegal firearms traffickers and reducing violent crime. This program has both domestic and international components.

Youth Crime Gun Interdiction Initiative (YCGII)

This component of ATF's nationwide Firearms Trafficking Enforcement Program identifies and investigates illegal sources of firearms trafficked or diverted to youths and juveniles. As of FY 2001, ATF had implemented the program in 50 cities. Two major goals of YCGII are to encourage comprehensive crime gun tracing by State and local law enforcement agencies and to provide crime gun market analyses to break the chain of illegal supply of firearms to youths.

International Firearms and Explosives Trafficking

ATF is responsible for investigating the illegal movement of firearms, explosives, and ammunition in international traffic; and preventing such arms from being used throughout the world to commit acts of terrorism, to subvert restrictions within other nations, and to be used as commodities in organized crime and narcotics-related activities.

In conjunction with the U. S. Customs Service, ATF also participates in foreign country firearm trafficking assessments and training programs funded by the Department of State, Bureau of International Narcotics and Law Enforcement Affairs (INL).

In FY 2001, ATF provided technical expertise on firearms-related issues to U.S. missions participating in international forums such as the United Nations and the Organization of American States.

ATF continues to serve as the point of contact for foreign law enforcement agencies conducting investigations involving U.S.-sourced commercial firearms. In support of our foreign colleagues, ATF routinely provides information related to the manufacture, importation, technical specifications, and legal movements of firearms with a U.S. nexus.

To better support ATF's mission and assist foreign law enforcement agencies in curtailing the illegal flow of U.S.-sourced firearms, ATF maintains offices in Colombia, Mexico, and Canada. During FY 2001, the ATF Colombia Country Office was increased by an additional special agent.

Brady/NICS Investigations

ATF is responsible for enforcing the provisions of the Gun Control Act of 1968 (GCA), which include the Brady Act amendments and provisions for the establishment of the National Instant Criminal Background Check System (NICS). All Federal firearms licensees (FFLs) must directly contact NICS, which is administered by the FBI, or a State point of contact, which conducts a similar background check prior to the transfer of a firearm to unlicensed individuals.

All referrals to ATF as a result of NICS denials are reviewed for disposition. ATF has made a top priority the investigation of felons, domestic violence violators, and other prohibited individuals who attempt to illegally obtain firearms.

In FY 2001, ATF received, processed, and reviewed in excess of 85,000 referrals. Of these, more than 18,000 were sent to field offices for investigation.

Project Safe Neighborhoods

Project Safe Neighborhoods is the comprehensive firearms enforcement strategy announced by President Bush on May 14, 2001. Project Safe Neighborhoods combines the core elements from the most comprehensive and effective strategies currently in place, including Project Exile, Project ICE (Isolating the Criminal Element), the Youth Crime Gun Interdiction

Initiative (YCGII), Operation Ceasefire, and comprehensive tracing. The strategy is to combine the five essential elements needed for a vigorous and successful gun violence reduction plan and tailor them to the needs of each individual judicial district and its unique gun violence problem. These elements are partnership, strategic planning, training, community outreach, and accountability.

In alignment with the Bureau's Strategic Plans on Protecting the Public and Reducing Violent Crime, a nation-wide assessment was conducted to determine the number and types of task forces in which ATF is actively involved and to define ATF's lead role in reducing violent crime. The assessment proved to be an integral part of the President's Directive on Project Safe Neighborhoods. The success of Project Safe Neighborhoods is largely dependent upon expanding the role of ATF in firearms enforcement nationwide. As a proactive approach to the President's Directive, ATF identified over 72 locations nationwide that currently lack permanent, full-time ATF presence where United States Attorney's offices are located. ATF's 2001 National Firearms Strategy calls for the creation of over 40 new satellite offices in these cities over the next 3 years.



Boy Scouts touring the Houston Field Division are shown the ATF Bomb Truck.

National Tracing Center

With restructuring effective October 1, 1999, ATF's National Tracing Center (NTC), Falling Waters, WV, became a division within ATF's Office of Firearms, Explosives and Arson. The new division comprises the former National Tracing Center Branch of the Firearms, Explosives and Arson Services Division, and the Crime Gun Analysis Branch.

The NTC is the only operation of its kind in the world. This facility conducts traces of firearms recovered at crime scenes and from youth for any Federal, State, local, or international law enforcement agency. The specific goal of the NTC is to increase the number of trace requests via increased electronic access to NTC information. In FY 2001, the NTC processed 232,272 crime gun traces. Report of Multiple Sale or Other Disposition of Pistols and Revolvers, ATF Form 3310.4, completed by FFLs when selling or otherwise disposing of two or more pistols during any five consecutive business days, is forwarded to the NTC. In addition, the NTC is the only repository for all FFL out-of-business records, where millions of records are currently stored.

ATF developed and initiated the Electronic Trace Submission System (ETSS). The purpose of ETSS is to aid the National Tracing Center in solving firearm related crimes by providing trace information about a firearm in question. ETSS is currently deployed in 159 law enforcement agencies. Police departments in the YCGII cities can now electronically transmit crime gun trace requests to NTC. Currently, 50% of traces are received electronically.

The Crime Gun Analysis Branch (CGAB) provides ATF personnel and other law enforcement agencies with crime gun data specific to their geographical areas. The Branch uses crime gun data amassed by the NTC to identify illegal firearms trafficking patterns and trends throughout the world. The Branch conducts in-depth analyses using graphs and maps to provide visual effects. ATF personnel use Online LEAD, a computerized investigative tool, to identify illegal traffickers. The web-based Online LEAD software provides ATF field

personnel and industry members with real-time statistical information concerning the segments of the firearms industry regulated by ATF.

During FY 2001, the Crime Gun Analysis Branch completed 2,298 assignments resulting in excess of 32,500 queries to the Firearms Tracing System. A total of 82 proactive referrals were made to ATF field divisions. FFL history or individual histories accounted for 1,356 queries. CGAB processed over 45 Geographic Information System (GIS) mapping projects. There were 1,807 reports totaling 14,299 firearms entered into the Suspect Gun database. In addition, GIS maps were completed for each city receiving YCGII funding.

Stolen Firearms

As a significant component of the Firearms Trafficking Program, this program seeks to reduce thefts of firearms from Federal firearms licensees and interstate carriers transporting firearms. This is accomplished through collecting and analyzing firearm licensee and interstate carrier theft information, and providing investigative leads to special agents and inspectors. All of these reports of thefts from licensed dealers and from interstate shipments and all associated recoveries were provided to ATF field offices for their consideration in opening a criminal investigation.

Program: Safeguard the Public from Arson and Explosive Incidents

An integral part of ATF's overall violent crime reduction strategy, ATF's arson and explosives projects are directed toward preventing the criminal use of explosives and the crime of arson, and providing effective post-incident response. ATF measures its success by the amount it saves the public through its proactive investigations of such crimes as arson-for-profit.

Prevent Criminal Use of Explosives

Through this program, ATF provides resources to identify and pursue those who use explosive

materials for bombings and arson fires. ATF has a cadre of explosive technologists with unique capabilities in explosives and bomb disposal. Their experience ranges from the ability to construct facsimiles of explosive and incendiary devices to assisting the State Department's Diplomatic Security Service in conducting antiterrorism capability assessments outside of the continental United States.

Arson and Explosives National Repository

The Arson and Explosives National Repository Branch's (AENRB) modern information management system contains nearly 112,000 arson and explosives incidents. This information is obtained from Federal, State, and local fire service/law enforcement incident reports, bomb technicians, and explosives investigators. The principle Federal partners in the data collection effort include ATF, the FBI, and the United States Fire Administration (USFA).

Information provided by the Repository is used for statistical research and analysis, investigative leads, and intelligence. It serves investigators, managers, and those performing regulatory duties at all levels of Government. In addition to incident and trend analysis, the Repository provides explosives tracing support. In FY 2001, there were 183 traces performed on commercial explosives and 59 on military items.

Special agents and intelligence research specialists provided instruction on incident reporting and the capabilities of the AENRB to 1,368 Federal, State, and local investigators and technicians. The branch also provided international training on arson and explosives incident information management to law enforcement officials in Australia, Canada, Columbia, France, Germany, Mexico, and the United Kingdom.

Church Fires

In early 1996, Federal officials detected a sharp rise in the number of reported attacks at houses of worship, especially among African-American churches in the South. In June 1996, President

Clinton formed the National Church Arson Task Force (NCATF) and made the investigation of these fires a top priority of Federal law enforcement. The task force combined the efforts of ATF, the FBI, Justice Department attorneys, Federal Emergency Management Administration, Department of Housing and Urban Development, and the Community Relations Service of the Department of Justice. ATF was designated as the lead Federal agency to investigate the origin and cause of fire and bombing incidents at houses of worship.

The task force opened 1,077 arson/bombing investigations. A total of 481 defendants have been arrested nationwide, which solved 380 of the 1,077 investigations.

The task force continues to investigate arsons, bombings, and attempted bombings that are targeted at houses of worship and will continue to promote church arson awareness through outreach efforts across the country.

Explosives Detection Canines

In 1997, ATF began training explosive detection canine teams for State, local and other Federal agencies. Currently, there are 28 ATF-certified explosive detection canine teams working throughout the United States. Five of these teams include ATF special agent canine handlers (SACH) stationed in Atlanta, Dallas, Los Angeles, San Francisco, and Washington, DC.

Explosives Research

In FY 1999, in conjunction with the U.S. Army Corps of Engineers, the National Security Council, and the Defense Nuclear Agency, ATF began participation in a project known as Dipole Might; a program to create a computer database and investigative protocol to assist investigators when processing large car bomb scenes. Tests included the evaluation of road sign damage from blasts, taggant survival/retrieval, and explosives residue testing. During FY 2001, ATF continued to add information to the database, conducting two major experiments relative to taggant survivability and recovery experiments by the Explosives Study Group.

Computer software development continued through the year, with a prototype software program delivered in the 4th quarter. Distribution of the software is anticipated for 3rd quarter FY 2002. Additional experiments, international and interagency research initiatives, and software refinement will continue in FY 2002.

Effective Post-Incident Response

Through years of investigative experience, ATF has learned that a coordinated and rapid deployment of highly trained and well-equipped personnel and related support functions is critical to the investigation of any arson or explosives incident. This "team approach" is the basis for ATF's National Response Team (NRT), its International Response Team, division response teams, and arson task forces.

The NRT can respond within 24 hours to major bombing and fire scenes anywhere in the United States. In FY 2001, the team provided effective post-incident response in 26 activations. These incidents involved \$35.8 million in damages and were responsible for 93 fatalities and 25 injuries. ATF continues to conduct customer satisfaction surveys of those who use the NRT, using the tabulated data to determine the NRT's effectiveness.

The NRT provided support to local communities in the management of four large special events with certified explosives specialists, explosives enforcement officers, post-blast investigative teams, and explosives detection canine teams. This support was provided at the Asian Development Banking Conference, the Special Olympics, the Miss Universe Pageant, and the Presidential Inauguration. The NRT is involved in the planning for the 2002 Winter Olympics and will provide some of these same resources.

The NRT has developed a new and innovative approach to the documentation of large crime scenes through the use of Sokkia Forensic Mapping. This highly technical system is being used on all NRT activations and has been deployed to assist State and local authorities on major crime scenes.

ATF agents engaged in criminal investigative analysis have had a significant impact in many types of investigations during FY 2001. Although their emphasis is in the jurisdictional area of bombings and arsons, they have assisted in a wide range of violent crimes; including homicide, kidnapping, child abduction, and national security cases. They have provided assistance to the countries of Sweden (assassination of the Prime Minister), South Africa (series of bombings), and Canada (arson prosecution). They have done "profile" consulting with law enforcement investigators in over 140 cases, and analyzed over 135 statements that resulted in the identification of 19 suspects. They have authored papers dealing with bomber profiling and are involved in research aimed at identifying profiles of all types of criminals. They have provided training for ATF agents and other Federal, State, and local law enforcement agencies.

A Special Agent Certified Fire Investigator (SACFI) and Special Agent Certified Explosives Specialist (SACES) are critical to the success of a comprehensive post-incident response. ATF's SACFIs are the only investigators trained by a Federal law enforcement agency to qualify as expert witnesses in fire cause determinations. In FY 2000, there were 76 of these investigators stationed throughout the United States. Eight additional SACFI candidates were certified in FY 2001. This allows for the strategic placement of investigators throughout the country to assist Federal, State, and local agencies with fire origin and cause determinations and training. ATF's 275 SACES, who have developed an unmatched level of expertise in post-blast analysis through years of experience, are proficient in all aspects of explosives identification, handling, instruction, demonstration, and destruction.

Because many arson crimes involve insurance, bank, mail, and other types of fraud, these investigations often require complex forensic financial analyses. These complex financial investigations are provided through ATF's Office of Science and Technology, Audit Services Division. The office also provides comprehensive forensic science services; supporting the task forces with financial auditing

services, information systems and equipment, and high-speed data communications. This includes Internet access to facilitate the research and exchange of national and international technical data and intelligence.

Program: Remove Violent Offenders from Our Communities

This program involves projects and services to investigate, arrest, and recommend for prosecution the most violent criminals who use firearms and explosives in their criminal activity.

Armed Violent Criminal Apprehension Program

This program uses specific provisions of the 1968 Gun Control Act, as amended; to investigate armed career criminals, armed drug traffickers, and other individuals who are prohibited from possessing firearms. Many of the defendants receive mandatory enhanced sentencing under the Armed Career Criminal Act of not less than 15 years in prison. Further, ATF's violent crime coordinators pursue additional information to determine where these violators obtain their weapons and whether they have committed previous criminal acts with them. ATF agents may then be able to initiate investigations under the Illegal Firearms Trafficking Enforcement Program to prevent additional firearms from being illegally diverted. These complementary efforts strive to reduce violent crime across the nation.

ATF also participates in numerous task forces with Federal, State, and local agencies; and supports intensive prosecution efforts such as Project Exile.

National Integrated Ballistic Information Network (NIBIN) Program

In the NIBIN Program, ATF deploys state-of-the-art equipment, known as the Integrated Ballistics Identification System (IBIS), to State and local NIBIN partner agencies. Agency users enter incoming firearms evidence into the system, then

search it against the database of previously entered evidence to find links to previous crimes. When a similar piece of evidence is discovered, firearms examiners use the original evidence for comparison to determine a match. By minimizing the number of comparisons that firearms examiners must make before finding a match, NIBIN maximizes firearms examiner resources. The system searches the entire firearms database in a matter of minutes. These quick searches provide detectives with significant investigative leads, some of which would be available by no other means.

ATF is moving quickly to deploy NIBIN equipment nationwide. Implementation in California and Nevada is nearly complete. Texas and Oklahoma are in the process of hardware installation and software configuration, with a few sites already operational. In Florida and Puerto Rico, equipment installation is complete, and those sites will be operational once networking is available. In FY 2001, 207 users were trained to use the NIBIN equipment.

Program: Prevent Violence through Community Outreach

This program focuses on community efforts designed to encourage and participate in the prevention of violence.

G.R.E.A.T. Program

The Gang Resistance Education and Training (G.R.E.A.T.) Program is a prevention program that seeks to deter students from gang activities and provide them with the necessary life skills to resist violence and gang pressure. The mission of the G.R.E.A.T. Program is to provide classroom instruction for school-aged children and a wide range of community-based activities

that result in the necessary life skills, a sense of competency, usefulness, and personal empowerment needed to avoid involvement in youth violence and criminal activity. In FY 2001, ATF provided funding to 200 different agencies to support their participation in the G.R.E.A.T. Program, and 3,685 officers were certified to instruct the G.R.E.A.T. Program. Over 1,662 agencies have over 4,875 officers certified to teach the program. During FY 2001, G.R.E.A.T. officers around the country taught approximately 390,000 school-aged children. Since the program began in 1992, nearly 3 million children have been taught.

In FY 2001, ATF continued to fund its five regional training partners in LaCrosse, Wisconsin; Phoenix, Arizona; Orange County, Florida; Portland, Oregon; and Philadelphia, Pennsylvania. They conducted 16 weeks of G.R.E.A.T. Officer Training programs, including two remote locations in Arizona and Florida. ATF also undertook to develop an enhanced curriculum for the G.R.E.A.T. program. This yearlong endeavor came to fruition after a concerted effort by the enhancement committee, chaired by ATF. The enhanced curriculum was piloted in 14 cities nationwide with overwhelming success. The new curriculum was released at the 2nd Annual G.R.E.A.T. officers conference. ATF also began the task of recertifying those officers in the enhanced curriculum and developing two new training classes to include these program changes.

In a longitudinal study of the G.R.E.A.T. Program by the National Institute of Justice, in cooperation with ATF, program participants reported lower levels of gang membership, self-reported delinquency, and victimization. The full National Institute of Justice evaluation is scheduled to be published in early 2002.

Collect Revenue

ATF plays a critical role in the Federal Government's tax collection process. Through its FY 2001 activity, the Bureau collected \$14.1 billion dollars in excise taxes levied on alcohol (wine, distilled spirits, and malt beverages) and tobacco products, firearms and ammunition.

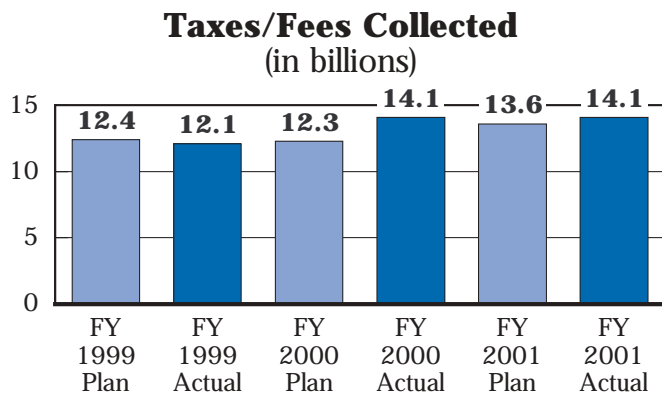
Strategic Goal: Maintain a sound revenue management and regulatory system that continues reducing taxpayer burden, improves service, collects the revenue due, and prevents tax evasion and other criminal conduct.

Programs: This strategic goal is accomplished through three programs:

- **Reduce Taxpayer Burden and Improve Service**
- **Collect All the Revenue that is Rightfully Due**
- **Prevent Tax Evasion and Other Criminal Conduct in the Regulated Industries**

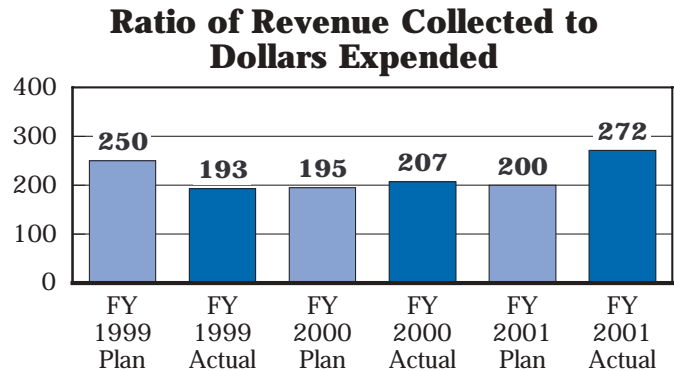
Performance Measure: Taxes/fees collected from alcohol, tobacco, firearms and explosives industries (in billions).

This measure includes revenue collected through alcohol, tobacco, firearms, and ammunition excise taxes, firearms and explosives license/permit fees, and special occupational taxes.



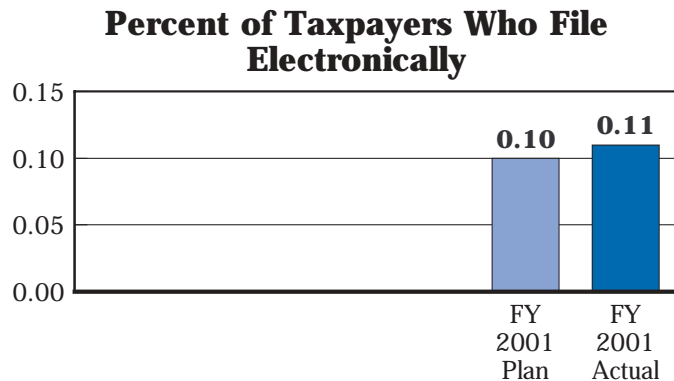
Performance Measure: Ratio of taxes and fees collected vs. resources expended.

This measure represents the amount of taxes and fees collected, divided by the amount of resources to collect such taxes and fees.



Performance Measure: Percent of taxpayers who file excise tax returns and required monthly operating reports electronically.

This measure represents the percent of alcohol, tobacco, and firearms taxpayers that use electronic filing instead of paper filing. The number of taxpayers for FY 2001 was 5,248, of which 6 participated in the Pay.Gov pilot program and filed electronically; for a figure of .11 percent.



Program: Reduce Taxpayer Burden and Improve Service

During FY 2001, ATF created the E-Government Program Office with the mission to improve the Bureau's efficiency and reduce burden on customers. ATF partnered with the Financial Management Service (FMS) to participate in the new Pay.Gov program allowing six tobacco taxpayers to file tax returns electronically under a pilot program. Tobacco manufacturers also pay their excise taxes using electronic fund transfer, making these filings/submissions completely paperless. Industry-wide participation in this program will not occur until FY 2003, when the National Revenue Center (NRC) integration is complete.

During FY 2002, ATF will also expand the project to include e-filing of monthly operating reports by tobacco industry members and to other regulated industries. The ultimate goal is to allow permittees and taxpayers to file all payments, returns and applications online with the NRC. Another initiative of the Pay.Gov web site is to allow taxpayers to pay taxes by credit card. Although not part of the pilot project, it is anticipated that this option will be available to taxpayers in the near future.

ATF continues to pursue the electronic filing of all tax payments and returns, reports, and other forms. Many ATF forms are already available for downloading from the ATF web site. During FY 2002, additional ATF forms will be made available.

In discussions with members of the beverage alcohol industry, their primary interest in electronic filing concentrated on Certificates of Label Approval (COLAs). In FY 2001, ATF hired a contractor to identify applicable system requirements and cost estimates. ATF then met with several third-party developers to discuss building a paperless system that could process COLAs and possible means of funding such a project. ATF also met with industry members to discuss the functionality of the system.

ATF funded automating the label approval process through internal funding beginning in FY 2002. This system should be operational by the

first quarter of FY 2003. Continued funding for building and maintaining the system will be included in future budget appropriations.

ATF will continue to rely on industry support as it moves toward full system integration.

Program: Collect All the Revenue that is Rightfully Due

ATF collected \$14.1 billion, before refunds, in Federal excise taxes, interest, penalties, and fees in FY 2001. Ninety-six (96) percent of this revenue was derived from payments of alcohol (wine, distilled spirits, and malt beverages) and tobacco excise taxes. ATF's revenue management program includes a variety of processes and functions based on reviewing, auditing and recording of tax returns, deposits, and operating reports. The program includes the accounting for all deposits and payments for taxes and fees from the alcohol, tobacco, firearms, ammunition, and explosives industries.

In FY 2001, ATF targeted those operations that pose the greatest jeopardy to the revenue. During FY 2001, ATF conducted 1,097 inspections at revenue producing plants resulting in 693 violations detected, 6,023 tax adjustments, and \$4.2 million in additional tax revenue. ATF focuses its on-site inspections of alcohol, tobacco, firearms, and ammunition taxpayers to those facilities that pose the greatest risk to revenue. The factors considered include, among others, volume of operations, compliance history, internal controls, and financial condition. A more detailed description of the various types and sources of revenues follows in the Financial Statements, Note 14, Non-exchange Revenue.

The National Revenue Center continued to monitor tax collections by auditing tax returns, levying assessments, initiating enforced collection action, analyzing required reports, requesting field verifications, and accounting for tax payments and related refunds. ATF processed 11 offers-in-compromise resulting from violations of the Internal Revenue Code. They resulted in \$514,939 being paid during FY 2001. One permit was suspended for 3 days due to entry of false information on export forms. A total of

1,383 new assessments was generated by issuance of Notice and Demand Letters in FY 2001. Of these, 547 were generated due to bad checks; while others were due to tax returns filed late or without payment, or failure to properly document exported alcohol products. There were 748 assessments closed during the year. In FY 2001, there were three enforced collection actions taken in the form of levies on taxpayer bank accounts or income.

Program: Prevent Tax Evasion and Other Criminal Conduct in the Regulated Industries

ATF is engaged in an ongoing effort to reduce a rising trend in the illegal diversion of cigarettes and distilled spirits products. Diversion activity generally occurs when legally manufactured or produced alcohol and tobacco products are diverted from their normal legal distribution method and sold in violation of Federal laws and regulations. Diversion activities defraud the United States of tax revenue. For example, cigarettes and distilled spirits are often fraudulently identified for export markets (for which there is no tax liability) when, in fact, they are diverted into the United States domestic market for sale (where there is tax liability). ATF's goal to ensure compliance with U.S. laws will greatly reduce the illegal diversion of alcohol and tobacco products.

During FY 2001, the Imported Cigarette Compliance Act of 2000 and the Tariff Suspension and Trade Act of 2000 were signed, which further restrict the importation of "Gray Market" tobacco products. These laws impose restrictions on re-imported tobacco products. The restrictions include re-importation of tobacco products to the original manufacturer or an export warehouse authorized by the original manufacturer. The laws also require that tobacco products be repackaged before sale on the domestic market, forfeited products be destroyed, foreign manufacturers submit ingredient lists to Health and Human Services before import into the United States, and tobacco importers obtain a consent from the U.S. Trademark holder before cigarettes can be imported.

ATF also enforces several statutes that deal with the illegal interstate trafficking of alcohol and tobacco products from a state with a low excise tax rate to a state with a high excise tax rate. The profits can be significant and the states are often not prepared to deal with these multi-state criminal conspiracies. ATF agents, inspectors, and auditors work closely with their state counterparts during these investigations.

For example, during FY 2001, ATF special agents, inspectors and auditors, along with the State of California and the Internal Revenue Service, worked jointly in a tobacco diversion case relating to counterfeit cigarette tax stamps. The nine-month investigation resulted in three arrests, the seizure of 45,000 cartons of cigarettes, and 130,000 counterfeit tax stamps. The seized cigarettes held a California tax value close to \$400,000 and the counterfeit stamps represented more than \$113,000 in tax value.

ATF is also engaged in an ongoing effort to update and to acquire agreements between ATF and State revenue agencies to share tax return information. This sharing of tax information provides a means to compare taxpayers, revenue, and other matters related to the sale and distribution of alcohol and tobacco products.

ATF partnered with foreign and domestic governments during FY 2001. Discussions with the U.S. Federal Trade Commission were held regarding misleading statements of Internet sales of tobacco products. Individuals were offering tax-free and duty-free cigarettes for sale on the Internet. ATF's position was that this advertising was not entirely truthful. Not all sales are tax- and duty-free. Meetings with the States have also resulted in the possibility of joint investigations to identify potential revenue losses. ATF, in cooperation with the States, would investigate those companies that removed taxable commodities without payment of excise tax.

A United States and Canadian Tobacco Assessment Working Group was established in FY 2001. This working group was formed to assess the scope of illicit tobacco trade between the United States and Canada. The discussions include emerging trends, loss of revenues,

obstacles in the laws and regulations, and cross-border smuggling activities. A memorandum of understanding (MOU) to share technology for establishing DNA characteristics of alcohol and tobacco products was also initiated. This technology would assist in determining the origin of the product involved.

ATF assisted the Republics of Armenia and Georgia to assess their winery and tobacco plants to determine how their governments audit and tax the plants and to review the methods used to transport goods. This assessment was geared toward providing the Governments with insight on how smuggling and diversion of taxes might be prevented.

During FY 2001, a leader of an international alcohol smuggling operation was sentenced to 4 years in a Canadian Federal prison. This individual was responsible for smuggling over 14,000 cases of non-tax-paid distilled spirits into Canada from the United States. Three other members of this smuggling operation were found guilty of conspiracy to defraud the United States. Two pled guilty and the third is set for trial. Approximately \$1.3 million in Canadian Federal excise tax was evaded as a result of this scheme.

In FY 2001, the seizures of cash, vehicles, beverage alcohol, and tobacco products during diversion investigations by ATF agents, inspectors, and auditors resulted in over \$1.86 million being credited to the Treasury Asset Forfeiture Fund. In FY 2001, 217 diversion cases resulted in 43 defendants recommended for prosecution.

During FY 2001, ATF conducted 22 seminars with foreign governments and other U.S. Federal and State agencies on diversion of alcohol and tobacco products.



"Operation Stamp Out" nets California's largest seizure of contraband cigarettes and counterfeit tax stamps.

Protect the Public

Through this activity, ATF complements reducing violent crime and collecting revenue with training and prevention strategies through law enforcement, industry regulation, industry partnerships, and reducing public safety risk and consumer deception on regulated commodities.

Strategic Goal:

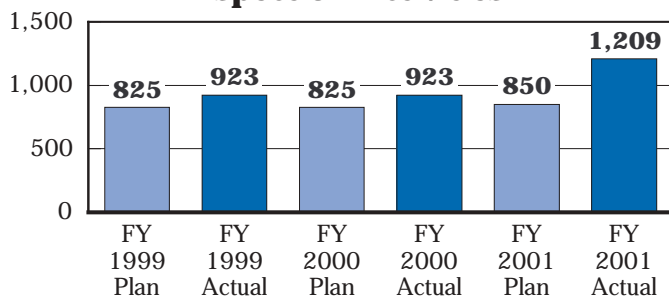
Protect the public and prevent consumer deception in ATF's regulated commodities.

Programs: This strategic goal is accomplished through three programs:

- **Assure the Integrity of the Products, People, and Companies in the Marketplace**
- **Ensure Compliance with the Laws and Regulations through Education, Inspection, and Investigation**
- **Inform the Public**

Performance Measure: Response to unsafe conditions and product deficiencies discovered (explosives).

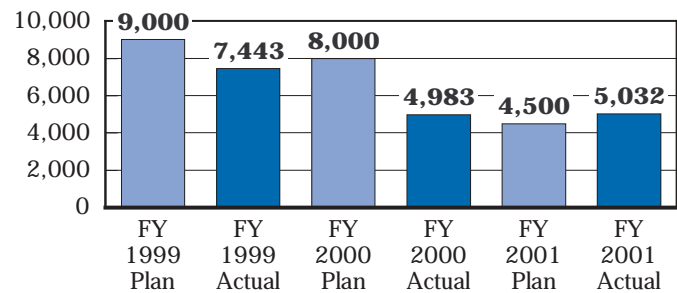
Number of Corrections Made to Unsafe Conditions Reported to ATF and from Inspection Activities



This measure tracks the number of corrections made to unsafe conditions reported to ATF and from inspection activities.

Performance Measure: Number of inspections (explosives).

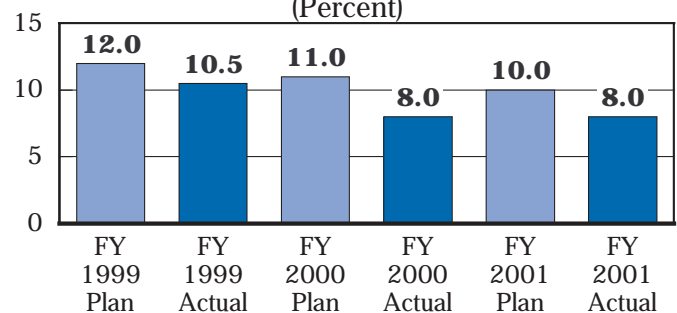
Number of Explosives Inspections



The goal established by the FEA Directorate for FY 2001 resembled that of FY 2000 for explosives inspections to be completed. The goal was set to perform inspections at 50 percent of the 9,436 explosives industry members licensed or permitted by ATF. This goal was established after continued losses of experienced inspectors and the subsequent requirement to hire and train new inspectors. The available resources were concentrated on those licensees or permittees with previous public safety violations or histories of non-compliance. Accordingly, the sum of explosives application inspections, explosives compliance inspections, explosives inspections from criminal enforcement referrals, and explosives-related seminars totaled 5,032 for FY 2001.

Performance Measure: Percent of population inspected (firearms), including licensee and application inspections.

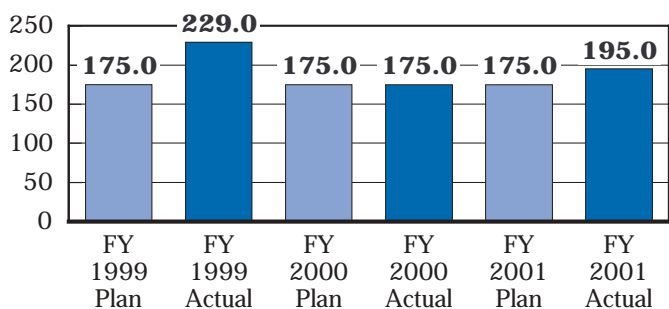
Number of Firearms Licensees Inspected (Percent)



The shortfall in the amount of firearms licensees inspected was due to the redirection of inspection resources after the September 11 terrorist incidents.

Performance Measure: The number of commodity seminars held.

Number of Commodity Seminars Held



Commodity seminars are held to provide information to industry members, law enforcement, and the public about the laws and regulations that ATF is responsible for enforcing. These seminars are periodically given to new industry members and others to educate and inform them of recent changes in these laws and regulations.

Program: Assure the Integrity of the Products, People, and Companies in the Marketplace

This program ensures that commodities meet safety and product identity standards, and keep ineligible or prohibited persons from entering the regulated industries.

Assuring Alcohol Product Integrity

ATF conducts a full range of regulatory functions in the beverage alcohol industry. The Federal Alcohol Administration Act, passed shortly after the repeal of Prohibition, coupled with certain Internal Revenue Code of 1986 provisions and the Alcoholic Beverage Labeling Act of 1988, authorize ATF to regulate the alcohol industry and provide protection to consumers of alcohol beverages.

Each year, through the alcohol beverage-sampling program, ATF collects alcohol products from the marketplace for analysis by ATF's laboratories. ATF found noncompliance due to labeling violations, over and under proof and fill violations, improper tax class classifications, and improper designations of class and type of alcohol beverage. No products were found to be unsafe.



An ATF Specialist examines a label from the Alcohol Beverage Sampling program.

ATF also investigates consumer/other agency complaints regarding contaminated beverage alcohol products. In FY 2001, ATF responded to 32 consumer complaints regarding alcohol products. The complaints resulted from natural occurring spoilage, mold, foreign matter, crystallization due to age of product, or allergic reactions to sulfites. Based on a Memorandum of Understanding between ATF and the Food & Drug Administration (FDA), ATF works in conjunction with FDA to investigate issues related to tampering or adulteration incidents regarding alcohol products.

ATF laboratories work closely with counterparts at the United States Food and Drug Administration, state laboratories, and regulatory agencies in many foreign countries. The laboratories exchange information on existing and new analytical methods and on product contamination or adulteration issues discovered by governmental laboratories, both domestic and foreign. This level of cooperation enhances

ATF's proactive stance to ensure that contaminated or adulterated products do not reach the United States marketplace.

Beverage Alcohol Labeling and Advertising

ATF is charged with protecting the consumer by preventing false or misleading claims on alcohol beverage labels and in advertising. The Bureau enforces the Government Warning Statement requirements, prohibits unbalanced and unsubstantiated health claims or misleading and deceptive claims, monitors industry advertising, and conducts investigations of suspected label fraud.

With limited exceptions, ATF issues Certificates of Label Approval for all domestic and imported beverage alcohol products bottled or packaged in the United States. ATF processed approximately 81,000 new and amended label applications during FY 2001.

During FY 2001, ATF examined 14 alcohol advertisements that resulted in five corrections, the denial of two advertising campaigns submitted by preclearance, and seven pending advertisements still in review for corrective action. ATF settled 12 labeling and advertising investigations. These investigations resulted in \$454,500 accepted offers-in-compromise for violations of the Federal Alcohol Administration Act. One permit was suspended for 45 days for numerous wine labeling violations.

Deny Prohibited or Ineligible Persons Entry into the Regulated Industries

In a continuing effort to insure that prohibited or unqualified persons do not obtain a permit, the National Revenue Center examines and verifies the information on each application and supporting documentation received for an alcohol or tobacco permit. This process includes conducting criminal history checks and making referral of applications to ATF field divisions for inspection. In FY 2001, the National Revenue Center received 2,945 applications from persons wanting to obtain or amend alcohol or tobacco permits. The utilization of criminal history

checks and field inspection examination resulted in seven applications denied, 247 applications withdrawn and 96 applications abandoned.

The applications denied and withdrawn resulted from false information on the application, prohibited persons, questions on funding, history of non-compliance, and failure to meet other qualification requirements. In many cases, the applicant withdrew the application rather than have it formally denied by ATF. The abandoned applications resulted from applicants failing to provide additional information.

ATF takes a proactive stance on policing regulated industry members once they have been issued a permit, monitoring tax returns and reports and conducting inspections to determine if the entity is conducting operations in compliance with the terms of its permit. During FY 2001, this resulted in the revocation of 33 permits. All of the revocations were of alcohol wholesale or import permits and permits issued to users of tax-free or specially denatured alcohol. The primary reason for the revocations was the industry member's not conducting business authorized by the permit within the past 2 years.

The Gun Control Act of 1968 mandates that every manufacturer, importer, or dealer in firearms obtain a Federal firearms license. ATF conducts inspections of applicants for Federal firearm licenses. During these inspections, ATF inspectors explain the Federal firearm laws and regulations and determine if the applicants are bona fide candidates for licenses. Where inspection reveals conflicts with state laws and local ordinances, inspectors make referrals to the appropriate regulatory agency such as a zoning, occupancy, fire code, or law enforcement agency.

ATF recognizes the value of averting accidents and keeping explosives from the hands of those who are prohibited from possessing them. ATF enforcement provides a system of industry regulation, emphasizing a proactive approach to the problem. Similar to the firearms industry, all manufacturers, importers, and dealers must obtain a Federal license from ATF to conduct

business, and certain users of explosives are required to obtain a Federal permit.

Program: Ensure Compliance with Laws and Regulations through Education, Inspection, and Investigation

Once a person or entity is licensed or obtains a permit to conduct a regulated business, ATF monitors and enforces compliance with applicable laws and regulations. Inspections of firearm licensees focus on ensuring that firearms are properly accounted for and that licensees are complying with legal and regulatory requirements. Licensees are selected for focused inspections when data from the National Tracing Center (NTC) and other information indicate that illicit trafficking may be taking place. In the explosives industry, ATF emphasizes the safe and secure storage of explosives as well as accountability. ATF inspectors also check on compliance with alcohol and tobacco product provisions and ensure that alcohol trade practice provisions are not violated. Education initiatives such as industry seminars are utilized in all industries.

Federal Firearms Licenses and Inspections

ATF is responsible for enforcing the licensing provisions of Federal firearms laws and regulations. These laws mandate that every manufacturer, importer, or dealer in firearms obtain a Federal Firearms License. The National Licensing Center (NLC) is responsible for issuing these licenses.

Through its programs, ATF Inspectors are actively engaged in curbing the illegal sale of firearms and enforcing Federal firearms laws through inspections and referrals to law enforcement. These public safety issues warrant the work of the NLC to issue firearms licenses only to those individuals who are qualified to possess them.

Once a licensee is engaged in business, inspectors ensure that licensee's compliance with Federal laws and specific record keeping regulations. ATF enforces the licensing

provisions of the Gun Control Act of 1968 by conducting on-premises inspections, including focused inspections on problem areas throughout the United States.

In FY 2001, the National Tracing Center (NTC) only placed one Federal firearms licensee on demand to provide certain records based upon the fact that he was uncooperative when contacted regarding the disposition of a firearm traced to his business. In addition, 463 FFLs were required to provide the NTC with information relating to the manufacturer and/or importer, model, caliber and serial number of any used firearm acquired from someone other than an FFL. Pawnbrokers who received firearms on pawn were not required to report any information on a firearm that was redeemed by the same person who pawned the firearm. The request for this data was a result of the FFL's involvement in 10 or more short-time-to-crime gun traces (3 years or less) in calendar year 2001. Information relating to the individual who sold the firearm to the FFL and information relating to whom the FFL sold the firearm is not captured in this data.

Alcohol Industry Inspections

In addition to the beverage-sampling program, ATF inspects alcohol plants (distilleries, wineries, and breweries) to assure that product manufacturing complies with approved formulas and processes and that products fulfill labeling and advertising claims. ATF collects samples of manufactured products that are sent to ATF Labs for analysis to assure product compliance. ATF investigates anti-competitive business practices between alcohol beverage suppliers and retailers to preserve the retailer's economic independence and protect the consumer.

Alcohol Trade Issues

While the new global economy provides new opportunities for U.S. producers of beverage alcohol products, the changing political and economic climates also produce discriminatory trade barriers that limit market access to U.S. manufacturers. ATF assists U.S. businesses in overcoming trade barriers through direct

intervention with foreign governments and by supporting the United States Trade Representative in negotiations with the European Union, the New World Wine Producers, the World Trade Organization, and various countries and/or trading blocks of countries with regard to Free Trade Agreements.

ATF also monitors and analyzes changes in foreign trade and political policies to anticipate and overcome potential barriers to U.S. interests. In addition, ATF participates in the U.S. delegation to the Codex Alimentarius Committee on Food Additives and Contaminants and the TRIPS (Trade Related Aspects of Intellectual Property Rights) Council at the World Trade Organization.

The results of this international activity have been greater access to international markets for U.S. alcohol beverage exporters and increased acceptance of U.S. production practices by countries reluctant to approve new production techniques. For example, due to the efforts of ATF, 2,908 United States products requiring certification gained entry into foreign markets in FY 2001.

Explosives Licenses/Permits and Inspections

ATF maintains a regular program of on-site inspections to ensure that explosives are stored in approved facilities that are secure from theft and located at prescribed distances from inhabited buildings, railways, and roads. Immediate action is taken to resolve unsafe storage conditions. These inspections ensure that the licensees and permittees keep accurate records of the receipt and disposition of explosive materials that are verified through actual inventories of explosives in storage. Unusual discrepancies in records are referred immediately to the appropriate office for further investigation. Inspectors also conduct “forward trace” inquiries or field inspections on persons who purchase explosives from a licensee without the benefit of a user’s permit for “same day use with no overnight storage.”

Industry Seminars

ATF conducts seminars for firearms and explosive permittees and licensees, providing current information on the laws and regulations pertaining to these commodities. Through these seminars, ATF has fostered partnerships with firearms and explosives industry members to prevent tragedies stemming from the illegal use of firearms and explosives. Seminar attendees include industry officials, licensees, permittees, and State and local law enforcement officials.

ATF also conducts seminars for alcohol and tobacco permittees. These seminars focus on current market trends, compliance concerns, changes in laws, regulations, or Bureau policies, and industry-raised issues. In partnership with the states, ATF conducts the seminars with the state alcohol beverage control agencies to provide the total compliance enforcement picture to those in attendance. In FY 2001, ATF conducted 58 alcohol and tobacco seminars.

National Firearms Act

The National Firearms Act (NFA) requires that certain firearms be registered in the National Firearms Registration and Transfer Record. Firearms requiring registration are machine guns, silencers, short-barreled rifles and shotguns, destructive devices, and certain concealable weapons classified as “any other weapons.” ATF processes all applications to make, export, transfer, transport, and register NFA firearms, and notices on NFA firearms manufactured or imported. The registration information supports the field programs inspecting firearms licensees and conducting criminal investigations. The NFA Branch continually provides technical information to industry and the public.

Firearms and Ammunition Importation

ATF regulates the importation of firearms, ammunition, and other defense-related articles through the issuance of import permits; and maintains close liaison with the Department of State to ensure that the permits issued do not conflict with the foreign policy and national security interests of the United States.

Program: Inform the Public

This program publicizes information on ATF policies and regulations, product safety, and theft prevention using the Internet, trade publications, seminars, and industry meetings and works in partnership with others to inform, advise, and educate the public.

Industry and State Partnerships

ATF continued its liaison with other Government agencies working toward a common goal of ensuring safety in the explosives industry. In FY 2001, ATF specialists met with Department of Transportation (DOT) and Consumer Product Safety Commission (CPSC) representatives on issues of mutual concern. ATF also worked with the Department of Defense (DOD) in developing or updating memoranda of understanding in the regulation of persons and companies in the explosive industry. Further, CPSC and DOT have been instrumental in providing instruction at the Advanced Explosives Training sessions. In addition, ATF continues to work with the Federal Aviation Administration regarding that agency's storage of explosives materials on or near airport property.

ATF is working with the National Shooting Sports Foundation on a variety of firearm commerce-related issues. These include the development of joint seminars for firearm dealers on firearm law and regulations, best business practices, and licensee safety and security issues. ATF is also looking at ways to educate firearm dealers on "straw purchaser" recognition.

The National Tracing Center (NTC) has formed partnerships with various firearms industry members by installing Access 2000 software on stand-alone servers provided by ATF. These servers are located on the premises of various manufacturers, importers and wholesalers. The Access 2000 Program allows the NTC to obtain disposition data on firearms that are subject to a crime gun trace 24 hours a day, seven days a week, while producing a cost benefit to the industry member. ATF provides the industry member with the necessary hardware/software and works with industry members in extracting data from their mainframes. NTC employees use software and a modem to dial into these servers to track the history of a firearm recovered in a crime scene. In FY 2001, the NTC formed additional partnerships with the firearms industry bringing the total to 16 FFLs who are currently on-line with ATF.

Bureau-wide Programs

TRAINING

The Office of Training and Professional Development's (TPD) high quality, innovative training programs improve the performance of the Bureau's employees and enhance the skills of thousands of State, local, and international personnel each year, all in support of ATF's Strategic Plan. These programs are delivered at Bureau Headquarters, the ATF Academy, the National Revenue Center, field divisions, or at various satellite training sites across the country and the world. Although training of ATF's personnel is part of our commitment to develop a talented and effective workforce, ATF is also charged, as part of its core mission, to train State and local law enforcement and industry personnel in ATF's areas of expertise.



ATF employees attend a training session at the National Revenue Center.

New Professional Joint Agent/Inspector Training

A record number of new ATF inspectors and special agents completed New Professional Training (NPT) at the ATF Academy. Joint agent/inspector training consisted of 3 weeks of training on topics of shared responsibility. NPT affords agents and inspectors the opportunity to build solid working relationships and learn information uniformly relative to their collaborative responsibilities. Agents received 13 weeks and inspectors 8 weeks of occupation-specific training on technical issues. A total of 212 agents and 148 inspectors were trained from October 2000 through September 2001, totaling 631 agents and 291 inspectors trained since NPT began in FY 1998.

Other FY 2001 accomplishments included the following:

Career Development:

- ‡ 100-percent completion rate for mandatory ethics training was achieved through the efforts of the Office of Chief Counsel and TPD. Provided mandatory training in the areas of EEO, bloodborne pathogen, and computer security awareness.
- ‡ ATF's Interstate Nexus training program was taken to a new level. A Euro-Nexus class was developed and delivered to a group of ATF special agents at European firearms manufacturers' premises and proof houses.
- ‡ An Advanced Special Agent Complex Investigation training course was redesigned and delivered to 54 senior special agents. Instructors for this course included teams of ATF agents and assistant U.S. attorneys. The course is designed to give ATF agents the knowledge, skills, and abilities to more efficiently and effectively conduct complex investigations using current laws. The course also includes information on ATF resources available and new investigative techniques in

firearms trafficking, electronic surveillance, and alcohol and tobacco diversion.

- ‡ An Advanced Alcohol and Tobacco Inspector training course was developed and delivered to 24 inspectors. This training course is designed to give inspectors knowledge and skills to conduct inspections to ensure that revenue owed is collected and to ensure that products are safe and properly labeled. The course focuses on accounting techniques and product inventories related to revenue and product integrity inspections. Additional courses will be held in FY 2002.
- ‡ Certified 50 new explosives specialists.
- ‡ Recertified 115 explosives specialists.
- ‡ Trained 84 special agents in post-blast investigations.
- ‡ Trained 53 explosives specialists in the chemistry of pyrotechnics.
- ‡ Currently training 17 certified fire investigator candidates.
- ‡ Recertified 85 certified fire investigators.
- ‡ Trained 190 National Response Team members.
- ‡ Trained 90 Inspectors in Advanced Explosives Training for Inspectors.
- ‡ Conducted two International Firearms Trafficking Seminars in Canada. This course is mandatory training for all personnel in several Canadian law enforcement departments.
- ‡ Trained 120 ATF special agents in Advanced Interviewing Techniques.
- ‡ Conducted mandatory quarterly training for 138 Special Response Team operators.
- ‡ Trained and recertified 55 medics.
- ‡ Trained 40 crisis negotiators.
- ‡ Delivered one firearms trafficking seminar to 70 U.S. attorneys, State and local officers, and ATF agents.
- ‡ Conducted Advanced Training for Intelligence Officers and Intelligence Research Specialists.

This training targeted those personnel specifically involved in collecting and disseminating criminal intelligence information.

Leadership Development:

- ‡ In collaboration with the Human Resources Research Organization (HUMRRO), developed a comprehensive leadership competency model. This model identifies and defines the leadership competencies that ATF first-line supervisors, mid-level managers, and executives must have to successfully perform their jobs.
- ‡ Formed a partnership with the University of Virginia to assist ATF in designing and delivering several leadership training courses.
- ‡ Instituted two new leadership training courses, one for new mid-level managers and one for experienced first-line supervisors.
- ‡ Launched an online leadership reference center that offers various books, videos, and training aligned with ATF's leadership competencies.
- ‡ Launched a new Senior Executive Service Candidate Development Program class. Nine managers from across the Bureau were selected to participate in this 2-year program.

State, Local and International Training:

- ‡ In concert with Bureau field offices and other Headquarters directorates, provided training to a projected 54,547 other Federal, State, local, and international law enforcement officers, industry personnel, civilians, and civic organizations. Topics included advanced explosives investigative techniques, post-blast investigation, advanced explosives destruction techniques, the National Seminar on Terrorism and Explosives (SEMTEX), and Underwater Explosives Recovery.
- ‡ Implemented training necessary to support Project Safe Neighborhoods (PSN), a new Presidential initiative. TPD staff occupies key positions within the PSN working group that is currently developing three separate approaches to reduce violence in America's neighborhoods. State, Local and International

- Training Division (SLITD) personnel will be delivering/coordinating training involving firearms trafficking, tracing, firearms identification, firearms statutes, the Gang Resistance Education and Training (G.R.E.A.T.) Program, et al. The three approaches include large conferences, gun prosecutor training, and ongoing regional training. SLITD personnel will become the singular resource for all PSN training initiatives in FY 2002.
- ‡ Began ATF delivery of training courses at Fort AP Hill, Virginia. After a determined need and exhaustive management study, Fort AP Hill was identified as the training location to carry ATF into the next millennium. FY 2001 saw the Advanced Explosives Destruction Techniques course move its curriculum from Fort McClellan, Alabama, to Fort AP Hill. In FY 2002, all ATF explosives training will move to Fort AP Hill.
 - ‡ On May 4, 2001, ATF and Customs officially opened the agencies' newly completed canine enforcement centers. The combined facilities, located in Front Royal, Virginia, are the first of their kind worldwide in training dogs in arson, explosives, and drug detection.
 - ‡ Delivered three 10-week Explosives Detection Canine Handler courses for State, local, other Federal, and international agencies; and delivered two 5-week Accelerant Detection Canine Handler courses for State and local fire investigators.
 - ‡ Provided funding to 200 agencies to support their participation in the G.R.E.A.T. Program, and 3,685 officers were certified to instruct the G.R.E.A.T. Program. Over 1,660 agencies have 4,875 officers certified to teach the program. During FY 2001, G.R.E.A.T. officers around the country taught approximately 390,000 school-aged children. Since the program began in 1992, nearly 3 million children have been taught.
 - ‡ Conducted five training sessions of ILEA (International Law Enforcement Academies) Budapest, to include instruction on firearms and explosives.
 - ‡ Provided international training courses to 1,031 law enforcement officers, from more than 30 countries, which included basic and advanced firearms and explosives identification; firearms trafficking; post-blast investigation; serial number restoration; and alcohol and tobacco licensing, taxation, and diversion training.
 - ‡ Delivered two separate sessions of the ATF National Firearms Examiner Academy (NFEA). This is a unique and innovative yearlong training program designed to provide training for apprentice/entry-level firearms examiners from Federal/State/local law enforcement agencies where no formal training program exists. The sessions were held at the ATF National Laboratory in Rockville, Maryland. Ten students graduated from the second NFEA in March 2001, which began in April 2000. The NFEA began its next class in March 2001, scheduled for completion in March 2002.
 - ‡ Co-hosted the following conferences: Fraternal Order of Police/ATF Gang Conference (250 participants), California Gang Investigators Association/ATF Gang Violence Conference (1,400 participants), and Mid-Atlantic-Great Lakes Organized Crime Law Enforcement Network/ATF Gang Information Sharing Conference (600 participants).
 - ‡ Delivered eight Serial Number Restoration classes to State and local firearms examiners.
 - ‡ Delivered four Advanced Arson for Prosecutors courses for students from Federal, State, and local prosecutors' offices, and delivered two Advanced Cause and Origin/Courtroom Techniques courses for public service employees.

SCIENCE AND TECHNOLOGY

The Office of Science and Technology/Chief Information Officer (CIO) plays a key role in support of the Bureau's enforcement and revenue programs. The CIO served as the senior executive for the Year 2000 Century Date Change Project, an aggressive multi-year, inter-Bureau effort to identify and bring ATF's information technology (IT) and non-IT systems

into compliance with various requirements as ATF moves forward into the new millennium.

Information Infrastructure

ATF continued its Enterprise Systems Architecture (ESA); a bureau-wide infrastructure that ensures that ATF's strategic and day-to-day business requirements are supported by IT that is secure, reliable, available, and maintainable. ESA provides ATF with the ability to collect, clarify, and communicate the information needed to reduce violent crime, collect revenue, and protect the public.

Data Communications Infrastructure

The Frame Relay Network was transitioned from AT&T FTS2000 to Treasury Contract provided Qwest services. The transition included restructuring the communication hub to the new ATF data facility in Martinsburg, West Virginia. Additionally, the restructuring and transition of the data network provided the infrastructure capable of moving the ATF Headquarters building, due in 2005, without interruption of service and downtime. While transparent to the user community, this transition allowed the consolidation of Frame Relay and cost effective introduction of Asynchronous Transfer Mode (ATM) to the hub locations. The re-engineering effort provides backup and enhanced stability of the network. The current network allows ATF the ability to support many significant software engineering investments as ATF's National Field Office Case Information System (N-FOCIS), Forensics Automated Case and Exam Tracking System (FACETS), Firearms Tracing System (FTSWEB), and Online-LEAD.

A pilot frame relay wide area network of fifty laboratories was installed by ATF to support the National Integrated Ballistics Information Program (NIBIN). Data communication circuits were installed in conjunction with the Integrated Ballistic Identification System (IBIS) equipment used by State and local law enforcement agencies, allowing them to compare images of ballistic evidence (projectiles and cartridge cases) obtained from crime scenes and recovered firearms. The NIBIN program oversees the

Bureau's nationwide ballistics information initiative and supports ATF's efforts to reduce gun violence by employing computer technology to assist the work of firearms examiners. The pilot proved a success and ATF will provide the data network for the remaining 149 locations as planned for next fiscal year.

The remote access technology for ATF's traveling community of agents and inspectors was upgraded to a Virtual Private Network (VPN) remote access technology, which provides a secure medium to access the ATF network and its resources. The VPN is a private data network architecture that makes use of the public telecommunication infrastructure while maintaining privacy through the use of a tunneling protocol and security procedure. The ATF Virtual Private Network (ATFVPN) is engineered with two methods for connecting to the ATF private network. The Internet is the primary medium for the ATFVPN, which supports up to 1,500 simultaneous connections. Laptops are configured with dialup network properties.

An ambitious project of standardizing and centrally managing the ATF voice systems was started this year. This standardization project allows for future IP-based routing of voice over the secure ATF wide area data network and centralized management of the Public Branch Exchanges and Voice Mail Systems. Additionally, the standardization allows agents to relocate operations to any of our offices without relearning the peculiarities of a new phone system. Thirteen of the twenty-three division offices and the three main centers were completed this fiscal year. The remaining ten divisions will be completed during FY 2002.

Improved Seat Management and Customer Satisfaction

- ‡ Improved the Customer Service Support Center (help desk). Enhanced audix options, automated the escalation processes, certified professionals, and implemented after-hour on-call rotation for emergency use.
- ‡ Implemented Service Level Agreements (SLA), to improve customer service, and a service

request acknowledgement process. Improved the first call answer process, installed gold level service for senior executives (quicker response), reduced call abandon rates, improved service hardware response time, and implemented next-business-day restoration for PC and software applications.

- ‡ Implemented a quality assurance program to standardize processes and procedures.
- ‡ Implemented Web-based equipment inventory capability with order tracking functionality.

Laboratory Services

Recognizing the need to maintain the highest level of services, Laboratory Services established the position of Chief of Quality Programs in FY 2001; with responsibility for quality assurance in the ATF laboratories, including proficiency testing and external accreditation. During FY 2001, the Forensic Science Laboratory-San Francisco (FSL-SF) and the Forensic Science Laboratory-Washington were inspected by the American Society of Crime Laboratory Directors' Laboratory Accreditation Board. Renewed accreditation was awarded to the FSL-SF in September 2001, with FSL-W accreditation renewal expected in early FY 2002. Laboratory Services has also begun the process for certification of the Alcohol and Tobacco Laboratory by the International Standards Organization (ISO). ISO is the premier accrediting body for public and private analytical laboratories.

The start-up of the new Fire Research Laboratory (FRL) continued in FY 2001, with the hiring of essential technical and administrative personnel. The staff now includes six fire research engineers/scientists and a Certified Fire Investigator/Special Agent. The FRL has provided scientific support in several major fire investigations and Fire Investigator training courses. Full operation of the FRL is expected in early FY 2003, with the opening of the new National Laboratory Center in Ammdendale, Maryland.

The second class of the ATF National Firearm Examiners Academy graduated in FY 2001 and

the third class began the yearlong program. This unique partnership between Laboratory Services, the Office of Training and Professional Development, and the Association of Firearm and Toolmark Examiners has been an unqualified success in the forensic science community.

The Alcohol and Tobacco Laboratory (ATL) developed new analytical approaches for determining the authenticity of malt beverages, to support the tax classification of new flavored malt beverage products. The ATL also assumed a leadership role in identifying counterfeit cigarettes in support of tobacco smuggling investigations.

Laboratory Services continued its support and leadership in partnerships with the University of Central Florida (arson and explosives methods), the University of Maryland (fire research center), National Institute of Standards and Technology (fire research), Canada Customs and Revenue Agency (alcohol product analysis), and the U.S. Customs Service (imported tobacco product authentication).

In FY 2001, Laboratory Services personnel completed 2,892 forensic cases, analyzed 7,071 alcohol and tobacco samples, and processed 8,215 alcohol product formula applications. Laboratory personnel also provided 306 days of instruction to ATF and other Federal, State and local law enforcement agencies; spent 300 days providing expert testimony in courts of law; and



Students at the ATF National Firearms Examiner Academy use comparison scopes.

spent 215 days providing scientific advice and support at ATF-investigated crime scenes. To address this increased workload, the staffing of Laboratory Services was increased by 19 positions in FY 2001.

Audit Services

The Audit Services Division (ASD) continued to conduct financial investigations in direct support of the Office of Field Operations and on-going criminal enforcement investigations; such as arson and bombings-for-profit, alcohol and tobacco diversion, firearms and drug trafficking cases, gang-related activities, and money laundering schemes. In addition to these investigations, ASD also developed forensic auditors to serve as computer investigative specialists. This allows ASD to respond to scenes where computer equipment or computer data is present, and to examine and eventually process as evidence in support of criminal and financial investigations.

Major ASD accomplishments during FY 2001 include the licensure from the National Association of State Boards of Accountancy (NASBA), the development and implementation of Career Professional Training (CPT), and the creation and implementation of a nationwide Case Tracking and Statistical Analysis System called 4Tracs.

- ‡ NASBA certification provides the credential for ASD to develop and present training courses to provide its forensic auditors with mandatory Continuing Professional Education (CPE) credits, which reduces the overall budgetary needs to support annual CPE.
- ‡ CPT programs have been developed to provide introductory, intermediate and advanced forensic accounting and auditing education to forensic auditors. CPT includes a matrix of prerequisite training and education for auditors that drives the annual Individual Development Plan, monitoring of annual CPE requirements, and the budget formulation process for training.
- ‡ The 4Tracs system provides ASD the ability to track all phases of financial investigations,

costs, disposition, and performance measures to calculate returns on investment for the Bureau's forensic auditing program.

Technical Support

The Technical Support Division provides technical support to field agents and inspectors, and comprises the Technical Operations Branch (TOB), Computer Forensics Branch, Radio Branch, and the Visual Information Branch.

TOB has two sections: Electronic Surveillance, which includes Technical Security Countermeasures, and Logistics. TOB purchases investigative equipment; investigative supplies; agent safety equipment, including body armor; law enforcement vehicles; and electronic surveillance equipment. TOB evaluates new technology and trains tactical operations officers and technical enforcement officers.

The Computer Forensics Branch provides trained personnel who extract information from seized computers and assist in computer crime and Internet investigation. In FY 2001, the Computer Forensics Branch trained an additional 11 Computer Investigative Specialists in the Basic Evidence Recovery School and eight Computer Investigative Specialists in the Advanced Evidence Recovery School. Additional advanced training included two participants in Internet Investigative Techniques and two participants in Mac training.

The Radio Branch provides a national wireless communications system, managed by a network of deployed radio technicians who maintain the ATF Radio infrastructure and provide tactical communication assistance. The branch is also actively involved with the Department of the Treasury and other Treasury bureaus in the development of a consolidated nationwide wireless Integrated Treasury Network (ITN) infrastructure.

The Visual Information Branch processed several thousand requests for audio/visual, graphics, and photographic support from internal ATF and external customers including the Department of the Treasury, and State and local law enforcement agencies.

LIAISON AND PUBLIC INFORMATION INSPECTION

The Liaison and Public Information office serves as principal advisor on matters relating to the public, media, and industry information; and policies and compliance with the Freedom of Information and Privacy Acts. The office establishes and maintains Embassy contacts and police official liaisons, and reviews responses to all inquiries received from the Department of the Treasury and congressional offices, and correspondence for the Director.

The ATF web site is fully accessible to the handicapped and meets the requirements of Section 508. The website continues to grow in its use by the public, industry members, Congress, the law enforcement community, and the media. After the September 11 terrorist incidents, there was a dramatic increase in visits to the web site to obtain information. The most popular sites are: Explosives, Bomb Threat and Detection Resources; 2000 Threat Assessment Guide for Houses of Worship; and Be Secure for America. The anthrax letter incidents also resulted in an increase in emails to ATF while mail service was disrupted in the Washington area. The Internet site was used to advise the public and industry of the mail disruption and to use the Internet as a way to communicate with ATF. ATF continues to make the Internet site more user-friendly and accessible for future e-Gov initiatives.

ATF posted a School Safety Website with information on the various resources available for learning about gang resistance, firearms education, and other school-related resources.

The ATF IntraWeb is the internal communications tool for bureau employees, designed to provide daily updates and other information including all Briefs, Handbooks and Orders. Knowledge Management (KM) pilots dealing with arson and diversion case investigations were completed, and this experience is being used in developing other KM pilots. The site is also linked to the Treasury IntraWeb. An Ethics site was added this year to provide online resources and opinions to employees on various ethics-related issues.

ATF maintains an Office of Inspection (OI) with primary responsibilities to plan, direct, and coordinate inspection and internal affairs activities. It appraises the effectiveness of operations; assesses the quality of management and supervision; and determines adherence to organizational policies, regulations, and procedures. The OI conducts employee integrity investigations, either criminal or administrative, and other sensitive investigations assigned by the Director.

The OI Inspections Division is responsible for inspecting (on a three-year cycle) all directorates in the field and at Headquarters, as well as associated administrative functions. These inspections determine administrative and operational efficiencies, and ensure that component offices are in compliance with ATF and Treasury rules and regulations.

The OI Investigations Division reviews all complaints and allegations involving personnel to determine if an investigation is warranted. Every effort is made to investigate these allegations in a timely manner to resolve issues that impact upon the Bureau and employees. The Investigations Division remains sensitive to the rights of employees and balances that with the obligation to conduct thorough investigations. The Division also provides training to all employees in order to prevent misconduct, and as a result, reassures the public that ATF adheres to the highest standards of ethics and integrity.

The OI Personnel Security Branch is responsible for conducting background investigations for all tentatively selected ATF applicants, as well as certain contractors assigned to Bureau projects or those working in ATF space. The Personnel Security Branch conducts periodic reinvestigations on current employees. Executive Order 12958 mandates periodic reinvestigations every five years for non-critical positions. This office is also responsible for position sensitivity and debriefing of employees at Headquarters who are resigning or retiring from ATF.

SPECIAL OPERATIONS

The Special Operations Division (SOD), Office of Field Operations, administers national support programs for law enforcement field activities related to polygraph examinations, undercover investigations, communications support, critical incident management, and special enforcement projects and programs. In addition, the Division manages the Emergency Expense Fund, the Special Response Teams (SRTs) and Witness Protection Programs, and coordinates the Organized Crime and Drug Enforcement Task Force program (OCDETF) and the Bureau's support mission to the U.S. Secret Service and State Department.

SOD comprises the Polygraph, Undercover, Critical Incident Management, and Enforcement Support Branches; and the National Enforcement Operations Center (NEOC). The Polygraph Branch provides polygraph support of law enforcement through operational program development, management direction, and resource coordination. As an internal control measure, each polygraph examination is confirmed by a quality control review to ensure the integrity of the process and adherence to Federal polygraph standards.

During FY 2001, polygraph examiners conducted 231 examinations of suspects, informants, and witnesses; of which 173 were related to arson/explosives, 44 related to firearms, nine to homicides, one to internal affairs, three to foreign screening, and one categorized as "other." Of the tests conducted, conclusive opinions were rendered over 90 percent of the time. The examinations produced 13 pre-test confessions, 36 post-test confessions, 22 admissions, five incriminating statements, and 54 investigative leads.

During the same period, 443 pre-employment polygraph screening exams were conducted. Eighty-three percent of the applicants passed the polygraph test, 10 percent had significant responses to relevant questions, and six percent of the results produced "No Opinion."

The mission of the Undercover Branch is to enhance undercover agent safety and operations

security. The Branch provides the necessary resources to support and conduct undercover assignments agents nationwide.

The National Enforcement Operations Center (NEOC) provides Bureau-wide tactical communications and record communications support and access to various law enforcement information databases. It is staffed 24 hours per day, and provides various types of communication support to field office components and Bureau Headquarters. This includes providing assistance to ATF personnel; other Federal, State, and local law enforcement agencies; and the general public, with Hotline Programs.

During FY 2001, the NEOC received approximately 48,500 telephone calls for service from the general public and other law enforcement agencies. The Center assisted in 198 hotline calls, 589 Federal firearms licensee calls, and 73 National Response Team/Special Response Team callouts. In addition, the Center processed 2,601 National Instant Criminal Background Check System (NICS) referrals and entered 2,464 ATF-wanted persons into the National Crime Information Center (NCIC) database. During FY 2001, 2,229 ATF-wanted persons were arrested and cleared from NCIC. Finally, the Center received 62,341 telecommunications messages from ATF elements, other law enforcement agencies, and various communications centers worldwide.

The Critical Incident Management Branch provides the Bureau with a systematic process for managing or responding to incidents that arise from all types of criminal investigations. It assists field personnel in the successful resolution of the most volatile or threatening situations encountered by ATF Special Agents. The CIMB comprises the Critical Incident Management, Tactical Support, and Tactical Response Sections; and manages the SRT, Crisis Negotiator, and Operational Medic Support Programs.

The Special Response Teams (SRT) Program Manager coordinates a national tactical team program consisting of 150 highly trained team members. These teams respond to requests for

tactical support throughout the nation. The basic SRT mission imperative is to “save lives” through the resolution of conflict produced by criminal elements. The Crisis Negotiator Program Manager coordinates a nation-wide negotiator team of 40 skilled members who are experts at resolving critical situations. The Operational Medic Program Manager coordinates the use of 55 personnel who are trained in providing basic and advanced life support. These Programs, when combined, assist the Bureau in enhancing agent safety, protecting the public, and reducing violent crime.

During FY 2001, the SRTs conducted 118 high-risk operations; including protection details, surveillances, armed suspect/barricade situations, arrests of fugitives, and search and arrest warrants.

The Enforcement Support Branch oversees multiple programs, including Airborne Operations, Electronic Facial Identification, Organized Crime and Drug Enforcement Task Forces, Victim-Witness Assistance Program, and National Special Security Events (2002 Winter Olympics, North Atlantic Treaty Organization celebrations, International Monetary Fund conferences, and United Nations conferences). In addition, the branch coordinates ATF assistance to the U.S. Secret Service and State Department for protective missions.

STRATEGIC INTELLIGENCE

Strategic intelligence continues to remain a critical business tool by which ATF successfully accomplishes its strategic goals of Reducing Violent Crime, Collecting Revenue, and Protecting the Public. Major milestones accomplished in FY 2001 were:

‡ FIELD INTELLIGENCE CAPABILITY EXPANSION

ATF completed development of Field Division Intelligence Groups at each of the 23 field divisions located throughout the United States. The Intelligence Groups utilize the varied experience and training of special agents, intelligence research specialists, industry

operations inspectors, and support staff. The Groups continue to focus on tactical intelligence to enhance and support field division criminal enforcement activities. Additionally, the Groups placed emphasis on strategic intelligence trends and patterns in their respective field division’s areas of responsibility.

The Intelligence Groups continue to work in conjunction with the Intelligence Division, which provides intelligence support and training opportunities for all Field Intelligence Group Supervisors, Intelligence Officers, and Intelligence Research Specialists.

‡ PARTNERSHIPS

ATF maintains intelligence partnerships, through the utilization of ATF representation, with the National Drug Intelligence Center (NDIC), El Paso Intelligence Center (EPIC), Financial Crime Enforcement Network (FinCEN), Interpol, the FBI Counter-terrorism Center (FBI/CTC), and the Central Intelligence Agency (CIA). Additionally, the Intelligence Division currently has National Security Agency (NSA) representation at Bureau Headquarters. ATF maintains a memorandum of understanding with the nation’s six Regional Information Sharing Systems (RISS), which represent thousands of State and local law enforcement agencies, pledging to share unique and vital intelligence resources. ATF’s external intelligence partners are key contributors to the Strategic Intelligence Plan and the means by which ATF ensures a full contribution to the nation’s law enforcement and intelligence communities. During FY 2001, the Intelligence Division reviewed over 120,000 intelligence community electronic messages.

During FY 2001, ATF, through the Intelligence Division, increased its support in the FBI Joint Terrorism Task Forces (JTTF) across the nation. The representation of ATF special agents to the JTTF brings ATF’s unique knowledge and expertise in explosives and firearms violations to complement the FBI’s expertise in terrorism matters.

The Intelligence Division has been actively involved in the Law Enforcement Working Group (LEWG). The LEWG comprises senior

representatives from other Federal law enforcement agencies, and seeks to help the law enforcement community articulate its needs more effectively to the intelligence community. Also, ATF has established ongoing representation at the executive level in the FBI Strategic Intelligence Operations Center (SIOC).

Technological Advancements

In FY 2001, Phase II of a multi-phased, state-of-the-art automated case management/intelligence reporting system, entitled N-FOCIS (National Field Office Case Information System), continued to receive minor enhancements. N-FOCIS comprises two companion applications: N-FORCE for special agent and N-SPECT for industry operations inspectors. Both eliminate redundant manual data entry on hardcopy forms and provide a comprehensive reporting and statistical information management application in a secure electronic environment.

N-FOCIS constitutes an on-line case management system and electronic central information repository that allows ATF to analyze and fully exploit investigative intelligence. N-FOCIS epitomizes the strength and unique value of ATF's combined law enforcement and industry operations enforcement missions. During FY 2001, the Intelligence Division provided in-service training to many of ATF's 23 field division special agents, investigative assistants, inspectors and computer specialists on the use of N-FOCIS applications. ATF plans to expand the N-FOCIS functionality to integrate N-FOCIS with several key ATF applications including the National Revenue Center, the National Tracing Center, National Arson and Explosive Repository, and the Intelligence Division's Management System. This integration plan establishes N-FOCIS as the Bureau's information backbone supporting its Strategic Goals.

In FY 2001, the Intelligence Division played a major role in the final testing of the N-QUIRE application. N-QUIRE is an automated system that will replace the Advanced Serial Case Management system as the Bureau's primary lead tracking system, and is a component of N-FOCIS. N-QUIRE will be integrated with ATF's

investigative reporting system, N-FORCE. N-QUIRE will offer ATF a technologically advanced and user-friendly investigative management tool. To ensure that N-QUIRE met the specific needs of ATF personnel, Intelligence Division Staff participated throughout the development process.

OPERATION SECURITY (OPSEC)

During FY 2001, the Operations Security Office continued to meet its commitment to maintain the integrity of ATF's mission by reducing the potential for compromise of ATF operations and information. The OPSEC Office participated in and continues to assist in the planning of several large-scale law enforcement operations by providing threat and risk assessments.

In FY 2001, the OPSEC Office was designated the lead office for all ATF Threat Policy directives, oversight and risk assessments for Bureau employees. Beginning in FY 2001, the OPSEC Office began the utilization of a formal analytical risk management tool to determine risk for law enforcement operations. This tool ensures that ATF is aligned with other law enforcement agencies in evaluating risk and threats based on the latest intelligence data. The OPSEC Office is committed to maintaining the highest standard of operations security, and does this on both a national and international level for the Bureau. This effort is achieved by the interaction with other agencies and the exchange of information through the Federal Law Enforcement OPSEC Working Group and the Intelligence Community.

LEGAL

ATF's Office of Chief Counsel provides a full range of legal support to the Bureau's varied missions. The Chief Counsel is a member of the Executive Staff and principal legal advisor to the Director, Deputy Director, and Assistant Directors. The Chief Counsel operates under general direction of the General Counsel and the Associate General Counsel (Enforcement) of the Department of the Treasury, and is also the Deputy Ethics Official for ATF.

Attorneys advise ATF personnel on issues related to alcohol, tobacco, firearms, explosives, arson, and administrative law. They also prepare, review, or assist in the preparation of proposed legislation, regulations, and executive orders relating to the laws affecting and enforced by ATF; make recommendations to the Department of Justice concerning litigation involving ATF; and represent ATF in administrative proceedings.

Currently, there are 19 Counsel offices collocated with field divisions and one collocated with the National Revenue Center. Total field Counsel staffing is 46 attorneys. Through FY 2003, the Office of Chief Counsel plans to fill staff attorney positions at FLETC and Division Counsel positions in Kansas City, Louisville and St. Paul; and to complete ATF's goal of staffing each Division Counsel office with a staff attorney. Upon the selection of the FLETC attorney, the final three Division Counsels and staff attorney positions; Counsel staffing will have 58 field attorneys, achieving ATF's goal of integrating Counsel into each field division management team.

MANAGEMENT

The Office of Management (OM) provides leadership to and works in partnership with other senior Bureau officials in executing ATF's core business processes (finance, human resources, procurement, property, physical security and safety, and administrative programs) to support the Bureau's mission.

In FY 2001, OM continued its focus on operating in a fiscally sound manner, meeting external mandates, protecting Bureau resources, and improving customer service. Specific accomplishments include:

‡ MERIT PROMOTION STATISTICS

The Merit Promotion Board processed over 107 vacancies during fiscal year 2001. The Board is the central selecting authority for all GS-14 and GS-15 senior managers.

‡ ACCOUNTABILITY AND MANAGEMENT CONTROLS

After receiving six consecutive Unqualified Opinions through FY 2000, the Secretary of the Treasury requested – and was granted – a waiver for ATF from the CFO Audit process. ATF received an Annual Financial Statement Review for FY 2001 by KPMG.

‡ NATION-WIDE TRAVEL MANAGEMENT CENTER

ATF instituted SATO Travel as the Travel Management Center Service provider in February 2001. This has standardized the level of travel services for all employees traveling on official government business, and allows the use of on-line booking via the Internet.

‡ FLEET CARD PILOT PROGRAM

ATF launched a pilot program with USBank in March 2001 to test its Voyager fleet credit card capability for fuel, maintenance, and repair purchases for Bureau-owned vehicles. The pilot, conducted at the Atlanta, St. Paul, and Los Angeles Field Divisions, has saved the Bureau thousands of tax dollars on fleet vehicle fuel expenses. The program is being expanded nation-wide.

‡ PAY DEMONSTRATION PROJECT

The FY 2001 enrollment increased from 256 to 269 employees. The major focus of this program is to address recruitment and retention issues within designated critical occupations. For over 2 years, ATF has been able to recruit and retain some of the best professional talent to its critical mission support components.

‡ PERSONNEL DIVISION RESTRUCTURE

The Personnel Division was restructured to improve customer service, enhance accountability, re-engineer business processes with the use of its new automated personnel system, and ensure a high level of compliance with laws and regulations.

‡ SAFETY, HEALTH & ENVIRONMENTAL PROGRAMS

A major re-evaluation and revision of ATF's safety, health and environmental (SHE) programs was initiated with the intention of implementing changes to create a work environment that provides the highest levels of protection for employees and to meet Treasury Department mandates.

Final stages were completed for issuing a major directive that will implement procedures and policies relating to protection of special agents and other employees from the respiratory risks associated with the hazardous materials encountered during investigations of fire scenes. Other developments included:

- Major acquisitions of respiratory protection equipment.
- Planning for related training and fit-testing programs, a mandatory medical surveillance program, and changes to enhance the efficiency and effectiveness of health-services related contracts.

‡ SPACE REDUCTION CONCEPTS/ HOTELING AND TELEWORK PILOTS

ATF implemented Headquarters and Field Telework Pilots to provide workplace alternatives in compliance with Federal law. In

addition, a pilot program was initiated to study the effectiveness and usefulness of a "hoteling" concept in field offices. It involves utilization of specialized systems furniture and storage components to produce cost efficiencies and space reductions.

‡ RENOVATION OF MARTINSBURG, WEST VIRGINIA SITE

ATF renovated the former IRS Computer facility started in Martinsburg, West Virginia to house the National Tracing Center and other functions. The project utilizes a building purchased by the Government (Government Services Administration) for \$1 and will result in permanent housing for approximately 345 ATF personnel and contractors.

‡ DIRECTIVES AND FORMS ON THE INTRAWEB/INTRANET

ATF promoted a paperless work environment by placing Directives and Forms on the IntraWeb/Intranet. The process will be completed by early FY 2002.

‡ ADMINISTRATIVE SYSTEMS INTEGRATION

ATF continued to make progress on its long-range strategy to integrate all mixed financial and financial systems.

Financial Results, Position and Condition

Overview of Financial Data

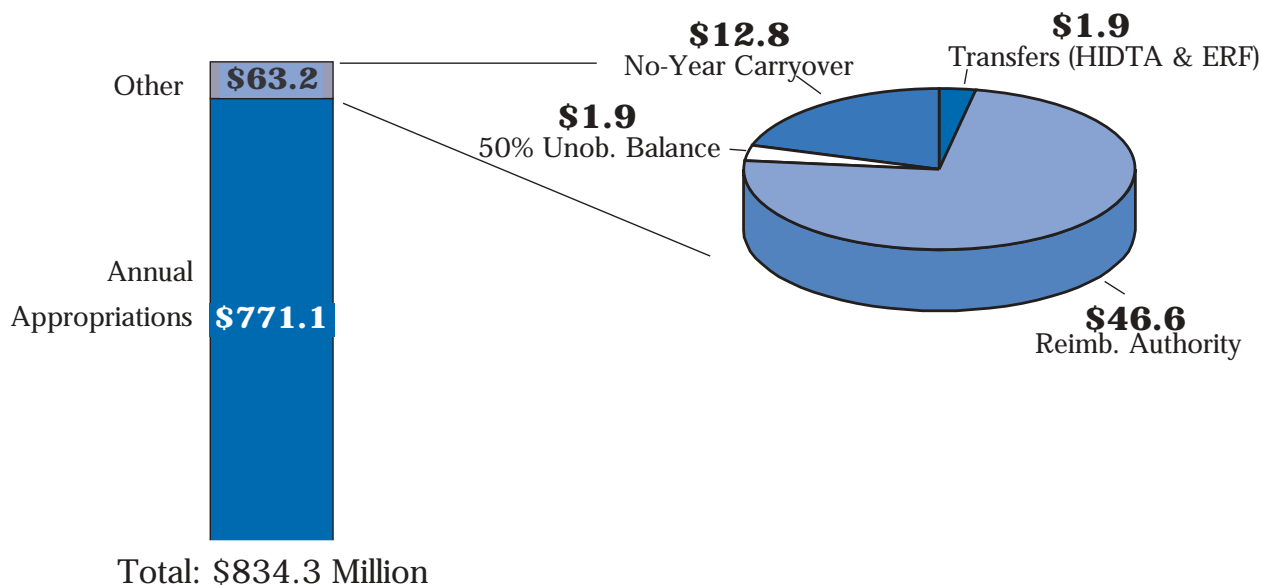
ATF's financial management vision is "to enable ATF to work better and cost less by financial and program personnel working in partnership, using modern management techniques and integrated financial systems. Together, we will ensure the integrity of information, make informed decisions, and measure performance to achieve desirable outcomes and real cost effectiveness."

ATF continues to make progress in implementing Federal financial management reforms and incorporating advances in information management technology into its processes.

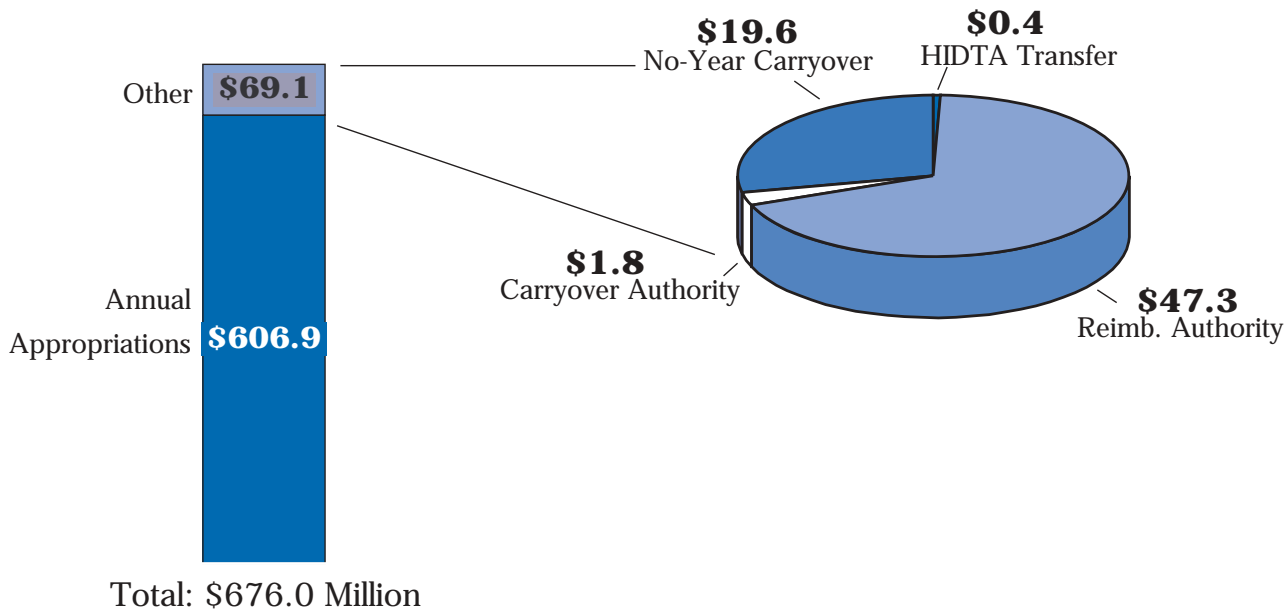
Budget Integrity Sources of Funds

The total budget authority available for use by ATF in FY 2001 was \$834.3 million. Of that amount, the Congress appropriated \$771.1 million for the Bureau's Salaries and Expenses Fund. An additional \$63.2 million was made available from other sources. These other sources include the following: no-year carryover funds of \$12.8 million; appropriation transfers of \$.4 million from the Office of National Drug Control Policy to support ATF efforts in High Intensity Drug Trafficking Areas (HIDTA), and \$1.5 million from the Emergency Response Fund; \$46.6 million in reimbursable authority from other Government agencies; and \$1.9 million, which represents 50 percent of the FY 2000 unobligated balance.

**Sources of Funds
FY 2001**
(Dollars in Millions)



**Sources of Funds
FY 2000**
(Dollars in Millions)



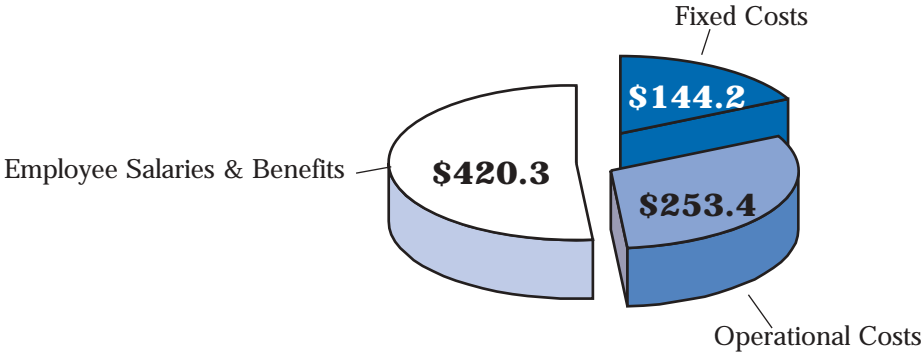
Uses of Funds

ATF incurred obligations of \$817.9 million during FY2001. Of the \$14.4 million in budget authority that was not obligated in FY 2001, \$3.1 million represents the Bureau's Salaries and Expenses; \$.1 million represents HIDTA funding; and \$7.6 million represents no-year appropriation carryover funds available for use in FY 2002. The aforementioned funds include \$.038 million transferred to the Department in

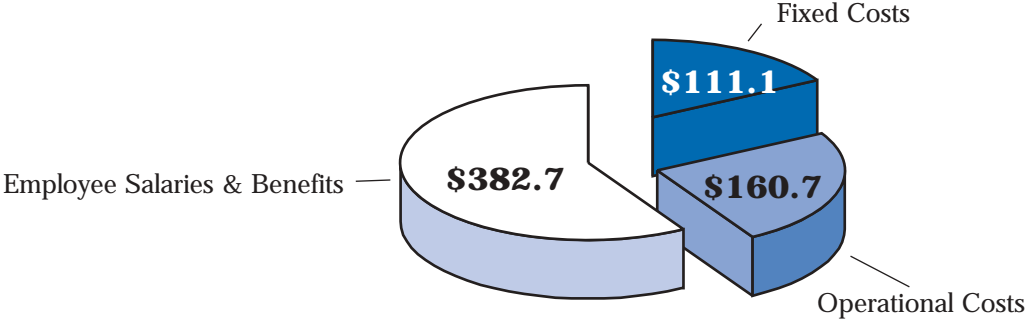
support of the Honors Attorney Program and CIO Council projects; of which \$1.9 million was from prior-year unobligated funds and \$1.7 million representing the rescission of Salaries and Expenses.

In FY 2001, the Bureau's full-time equivalent (FTE) level increased by 610 FTE. This increase was the basis for a corresponding increase in salaries and benefits, fixed costs and operational costs.

**Uses of Funds
FY 2001**
(Dollars in Millions)
Total: \$817.9 Million



**Uses of Funds
FY 2000**
(Dollars in Millions)
Total: \$654.5 Million

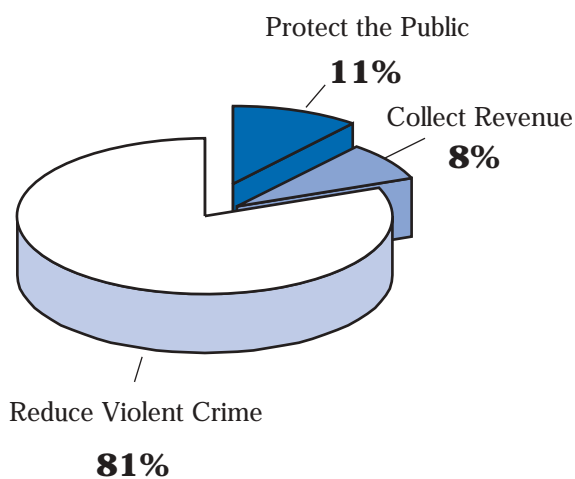


Cost Accounting and Performance Measurement

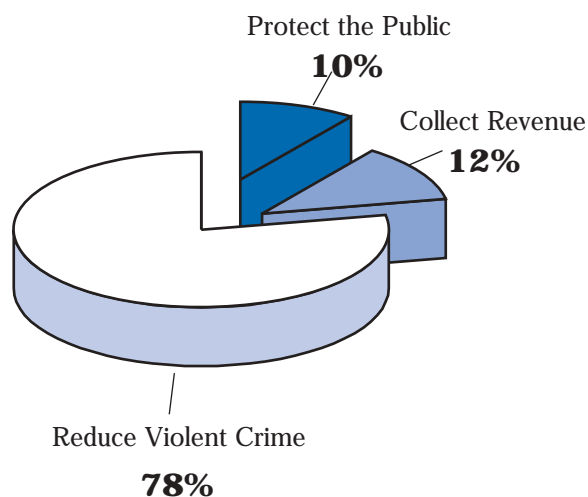
ATF continued its multi-year effort to develop and implement a Bureau-wide planning and reporting framework in the cost accounting and performance measurement area. In FY 1998, ATF implemented a new cost structure and laid the groundwork to standardize the cost structure for all Bureau systems that capture resource data. This framework was also utilized in developing

ATF's FY 2001, 2002 and 2003 budget submissions. The framework links strategic planning, budgeting, and program planning into a single, integrated package, permitting the Bureau to improve formulation and execution of its programs. Bureau employees charge their time directly against the Bureau's activities at the project level in a standardized time-reporting format.

**Cost by Activity
FY 2001**



**Cost by Activity
FY 2000**



Financial Performance

ATF's annual Financial Management Performance Plan contains key financial performance indicators. There are three major activities identified in the Plan: (1) provide leadership to promote the acquisition and management of ATF's resources, revenue, and assets; (2) provide quality financial services; and (3) provide financial information on ATF

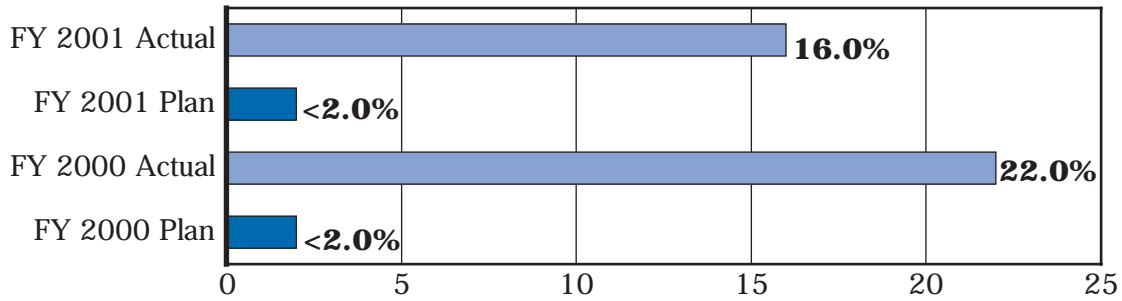
operations that supports reporting and decision-making. Strategic goals, annual performance goals, and measures were developed to achieve these three financial management activities. Several of the key goals and measures in the FY 2001 Financial Management Performance Plan are displayed below.

- **Activity: To provide quality financial services.**

Strategic Goal: Focus on customer service and innovate financial processes.

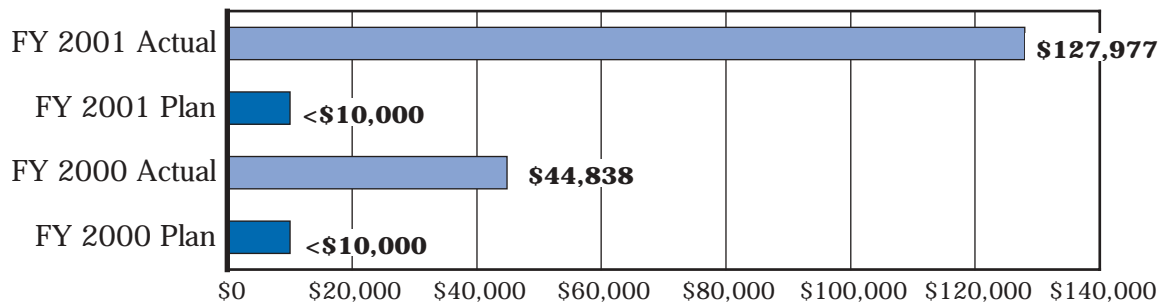
Annual Performance Goal: Compliance with Prompt Pay Act (PPA).

Performance Measure: Percentage paid late.



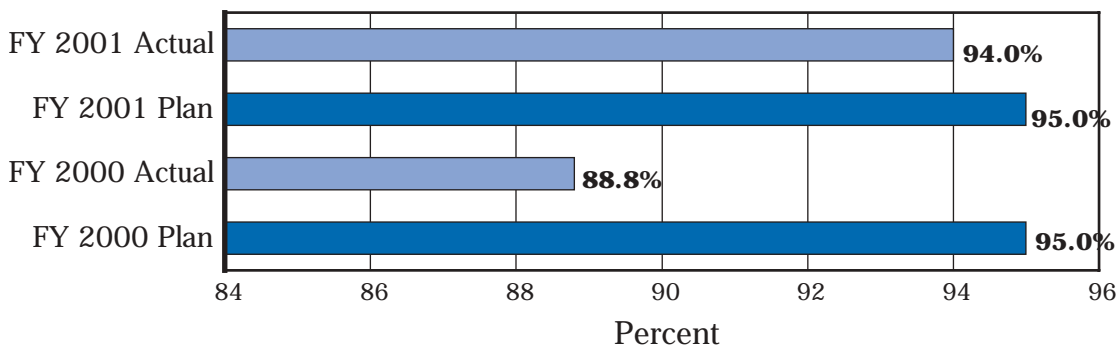
In FY 2001, the Bureau’s annual delinquent rate decreased to 16.0 percent from 22.0 percent in FY 2000. The unusually high frequency rate and late payment penalties were due to the implementation of a new financial system and changes to our accounting practices that required re-engineering business practices from a centralized to a decentralized environment. It was not until October 2000 that the system was fully operational and unforeseen events were completely addressed. ATF is committed to achieving the required prompt payment rate.

Performance Measure: Dollar amount of interest paid.



Annual Performance Goal: Compliance with electronic funds transfer (EFT) legislation.

Performance Measure: Percentage of vendors paid via EFT.



Note: Total number of vendor payments in FY 2001 was 15,658.

- **Activity: To provide financial information on ATF operations which supports reporting and decision-making.**

Strategic Goal: Provide complete and accurate financial statements.

Annual Performance Goal: Implement new schedules required under OMB Bulletin 97-01.

Performance Measure: Earn an unqualified audit opinion on ATF's Financial Statements.

After six unqualified audit opinions, the Secretary of the Treasury requested – and was granted – a waiver from the CFO Audit process for ATF for FY 2001. In FY 2001, ATF will receive a review of its financial statements.

Cash Management

ATF is complying with existing cash management laws and regulations and is aggressively working to enhance its cash management policies and operations through the implementation of new or improved technologies. Its activities in the cash management area are detailed below:

- **Debt Collection Improvement Act Compliance.** This act requires the use of electronic funds transfer for all Federal payments made after January 1, 1999.

Vendor payments: In FY 2001, ATF paid 94 percent of its vendors electronically, five percent higher than in FY 2000. ATF attributes this increase to a joint effort by the Financial Management and Acquisition Divisions to encourage commercial vendors to receive payments through EFT.

- **Collection Mechanisms.** ATF uses the automated FEDWIRE Deposit System and ACH Remittance Express Program to collect alcohol and tobacco excise taxes from

taxpayers who pay more than \$5 million in taxes per calendar year. In addition, ATF uses lockboxes provided through the Treasury lockbox network to collect other excise taxes, firearms license and permit fees, and Special Occupational Taxes.

ATF has entered into a Memorandum of Agreement with the Financial Management Service (FMS) and a commercial bank to accept credit cards for the payment of licensing fees and other taxes. Once implemented, ATF plans to expand to include accepting credit card transactions over the Internet.

- **Convenience Checks.** ATF closed all miscellaneous imprest funds nation-wide at the end of FY 1999 and is encouraging employees to use the purchase card whenever possible. ATF cardholders are authorized to write convenience checks against their purchase cards. In FY 2001, these cardholders used convenience checks to purchase over \$355,000 in goods and services.

Systems and Controls

Financial Systems

The Bureau's systems modernization efforts are designed to improve the effectiveness and efficiency of financial data processing and reporting capabilities. Planned improvement to the Bureau's financial systems address integrating all financial-related systems and establish direct links between program costs and performance measures.

The following were financial management system accomplishments in FY 2001:

- Implemented full disaster recovery capability for the financial system;
- Upgraded financial system hardware platform;
- Implemented Fleet Card Program with interface to the core financial system.

FY 2002 Plans:

- Upgrade financial system software;
- Conduct post-implementation review of core financial system;
- Meet Treasury goal of submitting monthly financial data within 3 business days;
- Streamline processing of bulk data into core system for payroll and credit cards;
- Begin integration of financial and performance reports with desktop executive level reporting tool;
- Continue integration efforts of property and space system with the core financial system.

Integrated Tax Collection System

The Integrated Tax Collection System (ICS) is a long-range project to integrate Bureau revenue management, including operational and financial processes. Areas specifically targeted for improvement are ATF business processes, revenue collection, management and accounting

practices, and system flexibility to respond to changing functional and information requirements.

This project integrates numerous stand-alone tax and fee databases to provide comprehensive revenue management information for Bureau program managers. Completion of the ICS will reduce the risk of revenue loss, eliminate duplication found in multiple databases, and increase ATF's tax return and claim verification efficiency.

Federal Managers' Financial Integrity Act (FMFIA) Summary

Annual Assurance Statement
for FY 2001

ATF has evaluated its management controls and financial management system for the fiscal year ending September 30, 2001, as required by the Federal Managers' Financial Integrity Act (FMFIA) of 1982 and the Federal Financial Management Improvement Act (FFMIA) of 1996. ATF provides a "reasonable assurance" that the objectives of FMFIA (both Sections 2 and 4) have been achieved and believes that it is in "substantial compliance" with the FFMIA. As a result, there is a reasonable assurance that (1) obligations and costs are in compliance with applicable laws and assets are safeguarded; (2) operational revenues and expenditures are properly recorded and accounted for; (3) accounting systems conform to the Comptroller General's accounting principles and standards; and (4) sound business practices are used to manage Bureau resources. In addition, ATF has implemented and maintained financial systems that comply substantially with Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level.

FMFIA Highlights

The Bureau centrally manages the Federal Managers' Financial Integrity Act (FMFIA) program, with oversight responsibilities assigned to the CFO. However, each executive office maintains responsibility for a cost-effective system of controls to provide reasonable assurance that Government resources are protected against fraud, waste, abuse, mismanagement, or misappropriation. The Executive Staff's responsibilities include ensuring that new and existing programs and administrative support activities are managed efficiently and effectively. All Executive Staff members and managers are accountable for safeguarding resources and are also evaluated as financial managers. In addition, the CFO Steering Committee, chaired by the Deputy CFO, is comprised of deputies of each major

Bureau component. This committee provides a forum for monitoring progress, resolving problems, providing coordination, and developing consensus recommendations regarding issues that arise from the Bureau's audit and its management and internal control environment.

Monthly Accountability Plan

The Monthly Accountability Plan (MAP) continued in FY 2001 as a reporting mechanism used to monitor critical, key activities that must be accomplished in order to achieve an efficient and effective integrated financial management process. Included in the MAP are data on key operating duties and indicators, such as account reconciliations, system assurance, financial reporting, and workload statistics.



2001 M Street, N.W.
Washington, D.C. 20038

Independent Accountants' Review Report

Director
Bureau of Alcohol, Tobacco and Firearms

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

We have reviewed the accompanying balance sheet of the Bureau of Alcohol, Tobacco and Firearms (ATF) as of September 30, 2001, and the related statements of net cost, changes in net position, budgetary resources, financing, and custodial activity (hereinafter collectively referred to as the "financial statements") for the year then ended. These financial statements are the responsibility of ATF's management.

We conducted our review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. A review consists principally of inquiries of ATF personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the financial position of ATF as of September 30, 2001, and its net costs, changes in net position, budgetary resources, reconciliation of net costs to budgetary obligations, and custodial activity, for the year then ended, in order for them to be in conformity with accounting principles generally accepted in the United States of America.

The financial statements as of and for the year ended September 30, 2000 were audited by other accountants, whose report thereon, dated January 19, 2001, expressed an unqualified opinion.

KPMG LLP

January 15, 2002



KPMG LLP (KPMG LLP) is a U.S. limited liability partnership in
a member of KPMG International, a Swiss entity.

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Financial Statements

Limitations of the Financial Statements

The financial statements were prepared to report the financial position and results of operations pursuant to the requirements of 31 U.S.C. 3515(b). The statements have been prepared from the books and records of ATF according to formats prescribed by the Office of Management and Budget. The statements are in addition to the financial reports used to monitor and control budgetary resources prepared from the same books and records. The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity. One implication of this is that liabilities cannot be liquidated without legislation that provides resources to do so.

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 the Office of Management and Budget (OMB) in Bulletin 97-01. Management is also responsible for the fair presentation of ATF'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 and compliance with pertinent laws and regulations.

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DEPARTMENT OF THE TREASURY
BUREAU OF ALCOHOL, TOBACCO AND FIREARMS
BALANCE SHEETS
As of September 30, 2001 and 2000

		2001	2000
		(Unaudited)	
<i>(In Thousands)</i>			
ASSETS			
Entity Assets			
Intragovernmental Assets:			
Fund Balance with Treasury	(Note 2)	\$ 281,511	\$ 205,950
Accounts Receivable	(Note 3)	11,192	23,326
Prepayments		11,449	8,686
Total Intragovernmental Assets		304,152	237,962
Cash	(Note 2)	2,041	2,136
Property and Equipment, Net	(Note 4)	155,238	95,754
Other Assets	(Note 5)	347	782
Total Entity Assets		461,778	336,634
Non-Entity Assets			
Intragovernmental Assets:			
Accounts Receivable	(Note 3)	11,025	10,225
Total Intragovernmental Assets		11,025	10,225
Cash	(Note 2)	2,514	2,741
Accounts Receivable, Net	(Note 3)	5,948	3,095
Total Non-Entity Assets		19,487	16,061
TOTAL ASSETS		\$ 481,265	\$ 352,695

The accompanying notes are an integral part of these statements.
See Independent Accountant's Review Report

**DEPARTMENT OF THE TREASURY
BUREAU OF ALCOHOL, TOBACCO AND FIREARMS
BALANCE SHEETS
As of September 30, 2001 and 2000**

	2001	2000
	(Unaudited)	
	<i>(In Thousands)</i>	
LIABILITIES		
Liabilities Covered by Budgetary Resources		
Intragovernmental Liabilities:		
Accounts Payable	\$ 7,861	\$ 10,078
Accrued Funded Payroll Benefits	4,809	4,120
Total Intragovernmental Liabilities	12,670	14,198
Accounts Payable	46,215	36,346
Accrued Funded Payroll Benefits	22,162	18,715
Other Liabilities (Note 6)	1,804	2,474
Total Liabilities Covered by Budgetary Resources	82,851	71,733
Liabilities Not Covered by Budgetary Resources		
Intragovernmental Liabilities:		
Accrued FECA Liability Payable	20,202	19,571
Payable to Treasury	5,948	3,093
Total Intragovernmental Liabilities	26,150	22,664
FECA Actuarial Liability	119,687	102,014
Accrued Refunds	11,025	10,226
Accrued Leave	31,183	29,161
Lease Liability (Note 7)	22,241	2,388
Contingent Liabilities (Note 8)	20,778	1,865
Other Liabilities (Note 6)	2,514	2,741
Total Liabilities Not Covered by Budgetary Resources	233,578	171,059
TOTAL LIABILITIES	\$ 316,429	\$ 242,792
NET POSITION (Note 9)		
Unexpended Appropriations	\$ 212,040	\$ 160,345
Cumulative Results of Operations	(47,204)	(50,442)
TOTAL NET POSITION	164,836	109,903
TOTAL LIABILITIES AND NET POSITION	\$ 481,265	\$ 352,695

The accompanying notes are an integral part of these statements.
See Independent Accountant's Review Report

**DEPARTMENT OF THE TREASURY
BUREAU OF ALCOHOL, TOBACCO AND FIREARMS
STATEMENTS OF NET COST
For the Years Ended September 30, 2001 and 2000**

	2001	2000
	(Unaudited)	
	<i>(In Thousands)</i>	
COSTS:		
REDUCE VIOLENT CRIME		
Program Costs		
Intragovernmental	\$ 143,561	\$ 114,297
Public	429,209	350,229
Total Program Costs	572,770	464,526
Less: Earned Revenues	(Note 10) (22,621)	(17,935)
Net Program Costs	550,149	446,591
PROTECT THE PUBLIC		
Program Costs		
Intragovernmental	20,496	14,011
Public	50,779	42,933
Total Program Costs	71,275	56,944
Less: Earned Revenues	(Note 10) -	(15)
Net Program Costs	71,275	56,929
COLLECT THE REVENUE		
Program Costs		
Intragovernmental	14,554	16,949
Public	38,093	51,937
Total Program Costs	52,647	68,886
Less: Earned Revenues	(Note 10) (999)	(832)
Net Program Costs	51,648	68,054
Costs Not Assigned to Programs	69,701	80,212
NET COST OF OPERATIONS	\$ 742,773	\$ 651,786

The accompanying notes are an integral part of these statements.
See Independent Accountant's Review Report

**DEPARTMENT OF THE TREASURY
BUREAU OF ALCOHOL, TOBACCO AND FIREARMS
STATEMENTS OF CHANGES IN NET POSITION
For the Years Ended September 30, 2001 and 2000**

	2001	2000
	(Unaudited)	
	<i>(In Thousands)</i>	
NET COST OF OPERATIONS	\$ 742,773	\$ 651,786
Financing Sources		
Appropriations Used	718,822	615,369
Donations	405	438
Imputed Financing (Note 11)	25,021	24,086
Transfers-in (Note 12)	1,821	13,476
Total Financing Sources	746,069	653,369
Net Results of Operations	3,296	1,583
Prior-Year Adjustments	58	-
Net Change in Cumulative Results of Operations	3,238	1,583
Increase (Decrease) in Unexpended Appropriations	51,695	(19,951)
Change in Net Position	54,933	(18,368)
Net Position - Beginning of Year	109,903	128,271
NET POSITION - END OF YEAR	\$ 164,836	\$ 109,903

The accompanying notes are an integral part of these statements.
See Independent Accountant's Review Report

DEPARTMENT OF THE TREASURY
BUREAU OF ALCOHOL, TOBACCO AND FIREARMS
STATEMENTS OF BUDGETARY RESOURCES
For the Years Ended September 30, 2001 and 2000

	2001	2000
	(Unaudited)	
	<i>(In Thousands)</i>	
BUDGETARY RESOURCES		
Budget Authority	\$ 776,640	\$ 607,212
Unobligated Balance - Beginning of Year	30,357	37,182
Net Transfers, Prior-Year Balance	0	(4,325)
Spending Authority from Offsetting Collections	40,766	46,982
Adjustments	15,189	39,009
TOTAL BUDGETARY RESOURCES	\$ 862,952	\$ 726,060
 STATUS OF BUDGETARY RESOURCES		
Obligations Incurred	\$ 837,553	\$ 695,703
Unobligated Balances - Available	9,233	16,629
Unobligated Balances - Not Available	16,166	13,728
TOTAL, STATUS OF BUDGETARY RESOURCES	\$ 862,952	\$ 726,060
 OUTLAYS		
Obligations Incurred	\$ 837,553	\$ 695,703
Less: Spending Authority From Offsetting Collections and Adjustments	(62,038)	(93,443)
Obligated Balance, Net - Beginning of the Year	175,255	154,773
Less: Obligated Balance, Net - End of the Year	(256,349)	(175,255)
TOTAL OUTLAYS	\$ 694,421	\$ 581,778

The accompanying notes are an integral part of these statements.
See Independent Accountant's Review Report

**DEPARTMENT OF THE TREASURY
BUREAU OF ALCOHOL, TOBACCO AND FIREARMS
STATEMENTS OF FINANCING
For the Years Ended September 30, 2001 and 2000**

	2001	2000
	(Unaudited)	
	<i>(In Thousands)</i>	
OBLIGATIONS AND NONBUDGETARY RESOURCES		
Obligations Incurred	\$ 837,553	\$ 695,703
Less: Spending Authority From Offsetting Collections and Adjustments	(62,038)	(93,443)
Financing Imputed for Cost Subsidies (Note 11)	25,021	24,086
Transfers-in (Note 12)	1,821	13,476
Revenue Not in the Budget	(44)	(51)
Other	(98)	-
Total Obligations as Adjusted and Nonbudgetary Resources	\$ 802,215	\$ 639,771
RESOURCES THAT DO NOT FUND NET COST OF OPERATIONS		
Change in Amount of Goods, Services and Benefits Ordered but Not Yet Provided	(71,121)	(1,167)
Change in Unfilled Customer Orders	14,428	14,303
Costs Capitalized on the Balance Sheet	(102,688)	(43,748)
Gain on Sale of Assets	(239)	-
Other	-	(40)
Total Resources That Do Not Fund Net Cost of Operations	(159,620)	(30,652)
COSTS THAT DO NOT REQUIRE RESOURCES		
Depreciation and Amortization	32,400	31,787
Liquidation of Prepayments	8,686	4,605
Loss on Disposition of Assets	-	380
Total Costs That Do Not Require Resources	41,086	36,772
FINANCING SOURCES YET TO BE PROVIDED	59,092	5,895
NET COST OF OPERATIONS	\$ 742,773	\$ 651,786

The accompanying notes are an integral part of these statements.
See Independent Accountant's Review Report

DEPARTMENT OF THE TREASURY
BUREAU OF ALCOHOL, TOBACCO AND FIREARMS
STATEMENTS OF CUSTODIAL ACTIVITY
For the Years Ended September 30, 2001 and 2000

	2001	2000
	(Unaudited)	
	<i>(In Thousands)</i>	
REVENUE ACTIVITY		
Sources of Cash Collections	(Note 14)	
Tax Revenues	\$ 14,080,002	\$ 14,105,744
Penalties and Fines	522	168
Interest	492	87
Other Custodial Revenue	183	259
Total Cash Collections	14,081,199	14,106,258
Accrual Adjustment	2,054	4,559
Total Custodial Revenue	14,083,253	14,110,817
DISPOSITION OF COLLECTIONS		
Transferred to Others	13,775,388	13,844,539
(Increase) Decrease in Amounts to be Transferred	2,855	(1,740)
Refunds and Other Payments	305,010	268,018
Total Disposition of Collections	14,083,253	14,110,817
NET CUSTODIAL REVENUE ACTIVITY	\$ -	\$ -

The accompanying notes are an integral part of these statements.
See Independent Accountant's Review Report

NOTE 1

Summary of Significant Accounting Policies

REPORTING ENTITY

The Bureau of Alcohol, Tobacco and Firearms (ATF or the Bureau), an enforcement agency within the Department of the Treasury, was given full Bureau status in 1972. ATF's mission is to enforce the Federal laws and regulations relating to alcohol, tobacco, firearms, explosives and arson. In addition, ATF is responsible for the collection of excise taxes and fees from the alcohol, tobacco, firearms and ammunition industries, as well as Special Occupational Taxes from certain businesses in the alcohol, tobacco and firearms industries.

BASIS OF PRESENTATION

The financial statements were prepared to report the significant assets, liabilities, net cost of operations, changes in net position, budgetary resources and custodial activity of ATF. The financial statements have been prepared from the books and records of ATF in conformity with generally accepted accounting principles (GAAP), and the form and content for entity financial statements specified by the Office of Management and Budget (OMB) in OMB Bulletin 01-09. ATF's accounting policies are summarized in this note. GAAP for Federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB), which has been designated the official accounting standards-setting body for the Federal Government by the American Institute of Certified Public Accountants. These statements are different from the financial reports, also prepared by ATF, pursuant to OMB directives that are used to monitor and control ATF's use of budgetary resources.

Entity financial resources of ATF present only those resources which will be consumed in current or future operating cycles, while the non-entity categories contain resources relating to ATF fiduciary activities of revenue collection.

The Bureau records entity accounting transactions on both an accrual basis of accounting as well as a budgetary basis. Under the accrual method, revenue is recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of Federal funds.

BUDGETS AND BUDGETARY ACCOUNTING

Congressional appropriations provide financing sources on an annual, multiple-year and no-year basis. These appropriations finance operating expenses and the purchase of property and equipment as specified by law. Appropriations are also received to meet specific program objectives. The Bureau's activities are funded by the following:

- 20-1-1000 - *Salaries and Expenses Appropriation*
- 20-1-1000 - *Salaries and Expenses Reimbursable Authority*
- 20-X-1000 - *No-year Appropriation*
- 20-0/1-1000 - *Prior-year Appropriation*
- 20-9/1-1000 - *Y2K Contingent Emergency Fund*
- 20-1-1000 - *Appropriation Transfers*
- 20-1/2-1000 - *High Intensity Drug Trafficking Area*
- 20-X-1003 - *Laboratory Facilities*
- 20-X-8526 and 20-X-8528 - *Violent Crime Trust Funds*

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All of these appropriations and the related gross costs, revenues and net cost as shown in the Statement of Net Cost are in Federal budget functional classification 750, Administration of Justice.

The accompanying financial statements of ATF include the accounts of the above funds under ATF control.

EXCHANGE REVENUE, NON-EXCHANGE REVENUE AND OTHER FINANCING SOURCES

EXCHANGE REVENUES

Exchange revenues are inflows of resources to a Government entity that the entity has earned. They arise from exchange transactions, which occur when each party to the transaction sacrifices value and receives value in return. That is, exchange revenue arises and is recognized when a Government entity provides something of value to the public or another Government entity at a price.

ATF provides a number of services including enforcement, training and professional development, and science and information technology to other government agencies on reimbursable agreements. ATF does not make goods to order.

Most of the funds received by ATF on a reimbursable basis result from the Bureau's agreement with the U.S. Department of State to train explosives-detecting canines for foreign countries. The canines will be used overseas in the war against terrorism and protecting American travelers abroad. Similarly, ATF is funded on a reimbursable basis for activity related to drug enforcement activity through the Interagency Crime and Drug Enforcement (ICDE) program formerly managed by the Justice Department.

NON-EXCHANGE REVENUES

Non-exchange revenues are inflows of resources that the Government demands or receives by donation. Such revenue is recognized when a specifically identifiable, legally enforceable claim to resources arises, to the extent that collection is probable (more likely than not) and the amount is reasonably estimable.

Non-exchange revenue is recognized when taxes are remitted or assessed. Liabilities for approved but unpaid refunds of tax payments are accrued at year end.

As an agent of the Federal Government and as authorized by 26 U.S.C. § 6301, ATF collects excise taxes from the alcohol, tobacco, firearms and ammunition industries, as well as permit and license fees. In addition, Special Occupational Taxes are collected from businesses, including producers, distributors and retailers of liquor, dealers in industrial alcohol, and certain firearms businesses. ATF receives no dedicated collections.

Substantially all of the taxes and fees collected by ATF net of related refund disbursements are remitted to the Department of the Treasury General Fund. The Department of the Treasury further distributes this revenue to Federal agencies in accordance with various laws and regulations. Revenue collected from firearms and ammunition taxes is transferred directly to the Interior Department's Federal Aid to Wildlife Restoration Fund under provisions of the Pittman-Robertson Act of 1937 to support its mission. ATF disburses refunds to taxpayers and license applicants as well as monthly payments to the Governments of Puerto Rico and the Virgin Islands. These payments are used to cover over (rebate) excise taxes collected for alcohol (mostly rum) produced in these territories and used by U.S. producers to support economic revitalization. The amount covered over to these

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governments is based on the consolidation of figures obtained from the U.S. Customs Service, Census Bureau, domestic distilleries and the Puerto Rico field office. The Bureau also refunds excise taxes to taxpayers who use distilled spirits in the manufacture of non-beverage products such as medicines, food products and flavorings.

Receivables are established when assessments are made for delinquent taxes or penalties and interest. ATF recognizes revenue when accounts receivable are established.

FINANCING SOURCES

Financing sources provide inflows of resources during the reporting period and include appropriations used and financing imputed with respect to any cost subsidies. Unexpended appropriations are recognized separately in determining net position but are not financing sources until used.

ATF receives the majority of the funding needed to support the Bureau through congressional appropriations. ATF receives annual, multiple-year and no-year appropriations that may be used, within statutory limits, for operating and capital expenditures (primarily equipment, furniture and furnishings).

Appropriations are recognized as a financing source at the time the related program or administrative expense is incurred. Appropriations expended for property are recognized as a financing source when the asset is consumed in operations (depreciation).

Costs financed by other Federal entities on behalf of ATF are recognized as imputed financing sources as required by SFFAS No. 5, "Accounting for Liabilities of the Federal Government."

Other financing sources result from distributions ATF receives from the Treasury Asset Forfeiture Fund. These resources finance the Youth Crime Gun Interdiction Initiative and other law enforcement initiatives, including seizing and forfeiting property of parties engaged in unlawful activities.

ASSETS

Entity intragovernmental assets include the fund balance with Treasury, amounts due from other Federal agencies under contractual agreements or other arrangements for services or activities performed by ATF and prepayments for authorized goods and services for Treasury's Working Capital Fund. Entity assets include property and equipment, as well as other assets comprised of advances and amounts due from employees or vendors.

Non-entity intragovernmental assets also include the fund balance with Treasury and accounts receivable due from Treasury to disburse approved refund claims of excise taxes and fees. Non-entity assets consist principally of receivables for excise taxes and fees which are to be distributed to the Treasury, other Federal agencies and other governments. None of the non-entity assets is considered a financing source (revenue) available to offset operating expenses of ATF.

FUND BALANCE WITH TREASURY AND CASH

The Department of the Treasury processes the Bureau's cash receipts and disbursements. Entity fund balance with Treasury and cash are primarily appropriated funds available to pay current liabilities and to finance authorized purchase commitments. Non-entity fund balance with Treasury is primarily escrow accounts designated to finance offers-in-compromise and cash bonds held in lieu of corporate surety bonds guaranteeing payment of taxes.

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PREPAYMENTS

Prepayments are payments made to cover certain periodic expenses before those expenses are incurred. In accordance with Public Law 91-614, ATF participates in the Treasury Department's Working Capital Fund activity, for which it receives services on a reimbursable basis. Payments made in advance are authorized for services that have been deemed as more advantageous and more economical when provided centrally. The services provided include those for Telecommunications, Payroll/Personnel Systems, Printing, and other central services. The amount reported represents the balance available at the end of the fiscal year after charges/expenses incurred by the Fund are deducted.

PROPERTY AND EQUIPMENT

The General Services Administration provides the land and buildings in which ATF operates and charges ATF rent that approximates the commercial rent for similar properties.

At September 30, 2001, ATF was in the process of constructing a laboratory in College Park, Md. These costs are capitalized as construction in progress and will be transferred to the appropriate property account upon completion. ATF owns the land upon which the laboratory is being constructed. ATF has no deferred maintenance or cleanup costs.

Equipment purchased or donated with a cost or fair market value greater than or equal to \$25,000 per unit and a useful life of two years or more is capitalized at the lower of cost or fair market value and depreciated. Other equipment is expensed when purchased. Normal repairs and maintenance are charged to expense as incurred.

Equipment with a unit price less than \$25,000 that is purchased in bulk, totaling \$250,000 or greater, for special projects or start up activities is also capitalized. Bulk purchases are grouped according to commodity type and depreciated using the same methodology as single capitalized purchases.

The Federal Accounting Standards Advisory Board promulgated SFFAS No. 10, *Accounting for Internal Use Software*, effective October 1, 2000. This standard requires the capitalization of commercial off-the-shelf (COTS), contractor developed and internally developed software. The ATF dollar threshold for capitalizing internal use software is \$500,000. The same threshold will also apply to enhancements which add significant functionality to the software. ATF will amortize this software based on its classification. The classifications are as follow: (1) Enterprise and Other Business Software; 5 years, and (2) Personal productivity and desktop operating software; 3 years.

LIABILITIES

Liabilities represent the amount of monies or other resources that are likely to be paid by ATF as the result of a transaction or event that has already occurred. However, no liability can be paid by ATF absent an appropriation. Liabilities for which an appropriation has not been enacted are classified as Liabilities Not Covered by Budgetary Resources and there is no certainty that an appropriation will be enacted. Also, liabilities of ATF arising from other than contracts can be abrogated by the Government, acting in its sovereign capacity.

Intragovernmental liabilities consist of amounts payable to the Treasury for collections of excise tax, fees receivable, payables to other Federal agencies and accrued FECA charges. Liabilities also consist of amounts due to be refunded to taxpayers, as well as amounts held in escrow for offers-in-compromise and cash bonds held in lieu of corporate surety bonds guaranteeing payment of taxes.

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ANNUAL, OTHER AND SICK LEAVE

Annual and other types of leave are accrued as earned, and the accrual is reduced as leave is taken. The balance reflects current pay rates. Sick leave is expensed as taken.

FEDERAL EMPLOYEES' COMPENSATION ACT

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

LITIGATION CONTINGENCIES AND SETTLEMENTS

Probable and estimable unsettled litigation and claims against ATF are recognized as a liability and expense for the full amount of the expected loss as required by Interpretation of Federal Financial Accounting Standards No. 2. Expected litigation and claim losses include settlements to be paid from the Treasury Judgment Fund (Judgment Fund) on behalf of ATF and settlements to be paid from Bureau appropriations.

Settlements paid from the Judgment Fund for ATF are recognized as an expense and imputed financing source as required by Interpretation No. 2.

RETIREMENT PLAN

Most ATF employees hired prior to January 1, 1984 participate in the Civil Service Retirement System (CSRS), to which ATF contributes 8.51 percent of basic pay (9.01 percent for those personnel classified as law enforcement agents) and the employee contributes 7.00 percent (7.50 percent for those personnel classified as law enforcement agents) for a total contribution rate of 15.51 percent in FY 2001 (16.51 percent for those personnel classified as law enforcement agents). On January 1, 1984, the Federal Employees' Retirement System (FERS) went into effect pursuant to Public Law 99-335. Employees hired after December 31, 1983 are automatically covered by FERS and Social Security. For most employees hired after December 31, 1983, ATF also contributes the employer's matching share of Social Security. For FERS basic benefit, the employee contributes 0.8 percent of basic pay (1.3 percent for those personnel classified as law enforcement agents) while ATF contributes 10.7 percent (23.3 percent for those personnel classified as law enforcement agents) for a total contribution of 11.5 percent in FY 2001 (24.6 percent for those personnel classified as law enforcement agents). The cost of providing a FERS basic benefit as provided by OPM is equal to the amounts contributed by ATF and the employees because the plan is fully funded.

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

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ATF recognized the full cost of providing future pension and other retirement benefits (ORB) for current employees as required by SFFAS No. 5. Full cost includes pension and ORB contributions paid out of Bureau appropriations and costs financed by the Office of Personnel Management (OPM). Reporting amounts such as plan assets, accumulated plan benefits, or unfunded liabilities, if any, is the responsibility of the OPM.

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 costs reported during the period. Actual results could differ from those estimates.

RECLASSIFICATIONS

Certain prior year balances have been reclassified to conform with current year's presentation.

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NOTE 2
Fund Balance with Treasury and Cash

Fund balance with Treasury and cash as of September 30, 2001 and 2000 consisted of the following:

FY 2001				
<i>(In Thousands)</i>				
Entity:	Obligated	Unobligated		Total
		Available	Restricted	
Trust Funds	\$ 15,625	\$ 5,438	\$ -	\$ 21,063
Appropriated Funds	241,737	16,907	-	258,644
Other Fund Types	-	1,804	-	1,804
Fund Balance	<u>\$ 257,362</u>	<u>\$ 24,149</u>	<u>\$ -</u>	<u>\$ 281,511</u>
Cash		<u>\$ 2,041</u>	<u>\$ -</u>	<u>\$ 2,041</u>
Non-Entity:				
Cash			<u>\$ 2,514</u>	<u>\$ 2,514</u>

FY 2000				
<i>(In Thousands)</i>				
Entity:	Obligated	Unobligated		Total
		Available	Restricted	
Trust Funds	\$ 27,658	\$ 8,934	\$ -	\$ 36,592
Appropriated Funds	147,618	19,266	-	166,884
Other Fund Types	-	2,474	-	2,474
Fund Balance	<u>\$ 175,276</u>	<u>\$ 30,674</u>	<u>\$ -</u>	<u>\$ 205,950</u>
Cash		<u>\$ 2,136</u>	<u>\$ -</u>	<u>\$ 2,136</u>
Non-Entity:				
Cash			<u>\$ 2,741</u>	<u>\$ 2,741</u>

Other fund types include proceeds from the sales of surplus vehicles and amounts held in suspense accounts.

Cash available for ATF use represents imprest and agent cashier funds. The agent cashier funds are used to finance the purchase of evidence and information from informants in open ATF investigations and enforcement operations.

Non-entity cash consists of offers-in-compromise held in escrow accounts representing reduced payments received by ATF from parties assessed taxes, penalties, interest and fees awaiting resolution.

Non-entity cash also consists of cash bonds received (money orders or cash) in lieu of corporate surety bonds guaranteeing payment of taxes. These amounts are reflected as liabilities covered by budgetary resources, other liabilities on the Balance Sheet. These funds are restricted solely for the purposes described and are unavailable to fund ATF operations.

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NOTE 3
Accounts Receivable

Accounts receivable as of September 30, 2001 and 2000 were as follows:

<i>(In Thousands)</i>	FY 2001		FY 2000	
	Entity	Non-Entity	Entity	Non-Entity
Intragovernmental Receivables	\$11,192	\$11,025	\$23,326	\$10,225
Receivables:				
Taxes/Fees		\$58,008		\$124,728
Interest		16,015		29,663
Penalties		10,002		6,069
Restitution Cases		624		550
		<u>84,649</u>		<u>161,010</u>
Less:				
Allowance for Uncollectible Accounts		<u>(78,701)</u>		<u>(157,915)</u>
Receivables, Net		<u>\$5,948</u>		<u>\$3,095</u>

Intragovernmental entity receivables represent amounts due under reimbursable agreements with Federal entities for services provided by ATF.

Intragovernmental non-entity receivables consist principally of funds due to ATF from the Treasury to refund certain excise tax and license fee claims.

An allowance for receivables deemed uncollectible was not established for these amounts because monies due from other Federal entities are considered fully collectible.

Non-entity receivables consist principally of outstanding excise and Special Occupational Taxes, fees, fines, penalties and interest that have been assessed and remain unpaid at year end.

An allowance for uncollectible amounts has been recognized for non-entity receivables. The allowance is based on an analysis of individual receivable balances, historical collections and the application of estimated collectible amounts to categories of receivable balances at year end. As of September 30, 2001 and 2000, approximately \$.3 million and \$140.0 million of the allowance, respectively, was based on cases that ATF had entered into negotiations for payment through offers-in-compromise, which had not yet been finalized.

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NOTE 4
Property and Equipment

Property and equipment consisted of the following as of September 30, 2001 and 2000:

FY 2001 <i>(In Thousands)</i>	Service Life (Years)	Acquisition Value	Accumulated Depreciation	Net Book Value
ADP Software	3	\$10,507	\$6,917	\$3,590
Equipment	2-10	157,135	80,146	76,989
Leasehold Improvements	2-5	24,486	8,279	16,207
Assets Under Capital Lease	3-6	28,002	4,595	23,407
Construction in Progress		25,502	-	25,502
Land		3,200	-	3,200
Buildings	40	6,515	172	6,343
Total Property & Equipment		<u>\$255,347</u>	<u>\$100,109</u>	<u>\$155,238</u>

FY 2000 <i>(In Thousands)</i>	Service Life (Years)	Acquisition Value	Accumulated Depreciation	Net Book Value
ADP Software	3	\$7,574	\$4,599	\$2,975
Equipment	2-10	131,885	74,287	57,598
Leasehold Improvements	2-5	16,822	6,071	10,751
Assets Under Capital Lease	3-6	26,476	21,837	4,639
Construction in Progress		15,379	-	15,379
Land		3,200	-	3,200
Buildings	40	1,243	31	1,212
Total Property & Equipment		<u>\$202,579</u>	<u>\$106,825</u>	<u>\$95,754</u>

Depreciation and amortization are calculated using the straight-line method. Leasehold improvements are amortized over the lesser of the life of the lease or useful life of the asset. Assets under capital lease are capitalized at the lesser of present value of future payments or fair market value at the time of acquisition and depreciated under the guidelines of the respective property categories or the life of the lease, whichever is shorter. Construction in progress at September 30, 2001 represents the initial costs of developing Bureau requirements for the construction of a laboratory in College Park, Md. The land located in College Park, Md. is recorded at its acquisition value. Construction in progress at September 30, 2000 represents costs incurred to construct a building for the canine training facility in Front Royal, Va., which was completed in FY 2001. There are no restrictions on the use or convertibility of property and equipment.

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NOTE 5
Other Assets

Other assets consisted of the following as of September 30, 2001 and 2000:

<i>(In Thousands)</i>	FY 2001	FY 2000
	Entity	Entity
Other Assets:		
Advances	\$55	\$232
Due From Employees	292	550
Total Other Assets	\$347	\$782

Advances and amounts Due From Employees are cash outlays made to its employees, contractors, grantees or others to cover a part or all of the recipients' anticipated expenses or as advance payments for the costs of goods and services the entity receives.

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NOTE 6
Other Liabilities

Other Liabilities Covered by Budgetary Resources primarily consist of amounts withheld from employees' salaries for taxes, employee benefit contribution, wage garnishments and others.

Other Liabilities Not Covered by Budgetary Resources include current amounts held for offers-in-compromise, cash bonds, and deposit fund amounts held in escrow.

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NOTE 7 - LEASES**NOTE 7(A)****Future Capital Lease Payments (in thousands)**

For Assets Under Capital Lease, the acquisition value of machinery and equipment, which represents computer hardware, laboratory and other office equipment, is \$23,277. The remaining \$4,725 is the acquisition value of related computer software.

Future minimum lease payments due for capital leases on machinery, equipment and related computer software as of September 30, 2001 and 2000 were as follows:

<i>(In Thousands)</i> Fiscal Year	FY 2001	FY 2000
2001	\$ -	\$2,286
2002	12,520	95
2003	8,762	84
2004	2,541	66
2005	314	44
2006	139	-
Future Lease Payments	\$24,276	\$2,575
Less: Imputed Interest	(2,035)	(187)
Net Capital Lease Liability	\$22,241	\$2,388

In FY 2001, ATF entered into a capital lease, modernizing its Information Technology through Bureau-wide deployment of its Enterprise Systems Architecture. Under this capital lease agreement, the contractor is providing computer and related software for ATF's strategic and day-to-day business requirements. In addition to this major program, the Bureau has entered into a number of smaller capital lease agreements for laboratory and other office equipment.

Assets acquired by capital lease agreements are reported on the accompanying Balance Sheet based on the lesser of the present value of the future minimum lease payments or the fair market value of the asset. Imputed interest rates range from 4.3 to 13.9 percent.

The capital lease liability is expected to be funded from future sources and is presented on the Balance Sheet as a component of other liabilities not covered by budgetary resources.

NOTE 7(B)
Future Operating Lease Payments

The Bureau leases various copiers, fax machines and vehicles under agreements accounted for as operating leases. Future commitments under operating leases for equipment as of September 30, 2001 and 2000 were as follows:

<i>(In Thousands)</i>		
Fiscal Year	<u>FY 2001</u>	<u>FY 2000</u>
2001	\$ -	\$ 629
2002	746	256
2003	669	94
2004	598	37
2005	563	9
2006	<u>526</u>	<u>-</u>
Total Future Lease Payments	<u><u>\$ 3,102</u></u>	<u><u>\$ 1,025</u></u>

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NOTE 8

Contingent Liabilities

A loss contingency is an existing condition, situation, or set of circumstances involving uncertainty as to possible loss to an entity. The uncertainty should ultimately be resolved when one or more future events occur or fail to occur. The likelihood that the future event or events will confirm the loss or the incurrence of a liability can range from probable to remote. SFFAS No. 5 and SFFAS No. 12 contain the criteria for recognition and disclosure of contingent liabilities.

ATF is a party to various administrative proceedings, legal actions, and claims brought by or against it. These claims are of a nature considered normal for a government law enforcement agency. Most financial liabilities resulting from litigation and claims against ATF are payable from the permanent judgment appropriation established by 31 U.S.C. Section 1304 Treasury Judgment Fund (Judgment Fund). In the opinion of the Bureau's management, the ultimate resolution of these proceedings, actions and claims will not materially affect the financial position or cost of operations of ATF.

At September 30, 2001, ATF legal counsel was processing approximately 216 of these actions against the Bureau. ATF identified and accrued, at September 30, 2001, \$20.8 million as a contingent liability. These amounts represent those costs which ATF believes are probable and reasonably estimable. These liabilities result from administrative tort and employee claims, lawsuits filed under the Federal Tort Claims Act, and personnel and EEO cases.

The change in contingent liabilities from September 30, 2000 resulted from the resolution of various administrative tort and employee claims, lawsuits filed under the Federal Tort Claims Act, and the reclassifying of a lawsuit filed under the Federal Tort Claims Act from reasonably possible to probable.

ATF counsel identified at September 30, 2001, \$2.9 million for which ATF has not recorded an accrual; because, in management's opinion, an unfavorable outcome is reasonably possible but not probable. These cases result from administrative tort and employee claims, contract takings, patent infringement and tax claims lawsuits, administrative EEO/personnel cases, and lawsuits filed under the Federal Tort Claims Act.

As of September 30, 2001, there was one large group of Federal Tort Claims Act administrative claims involving the bombing of the Federal building in Oklahoma City, Oklahoma. This group entailed 655 individual claims seeking over \$16 billion in damages. The Department of Justice is the lead agency and is handling the claims as they involve allegations of negligence by a number of Federal agencies, including ATF. ATF believes that it has meritorious defenses to these claims and that ATF acted properly at all times in these matters. In addition, there were eight lawsuits filed under the Federal Tort Claims Act against the United States involving actions by ATF employees acting within the scope of their employment at the Branch Davidian compound near Waco, Texas. The plaintiffs were seeking approximately \$7.36 billion. The district court issued a favorable decision, but the plaintiffs have filed an appeal. ATF believes these cases are without merit and is aggressively defending the cases on appeal. ATF believes that it has strong arguments that the district court's decision was proper and that ATF's agents acted properly. Accordingly, ATF has not recorded any loss provision relative to damages sought by the plaintiffs for these cases.

Public Law 101-510, enacted November 5, 1990, requires Federal agencies to automatically cancel obligated balances on annual appropriated funds after specific future time periods, even though the agency remains contingently liable to pay valid contractor invoices for services received under contracts signed in the year of obligation. Legitimately incurred obligations that have not been paid at the time an appropriation is canceled must be paid from current appropriations available for the same purpose. ATF canceled approximately \$2,000 of obligations relating to appropriations canceled at the end of FY 2001. ATF estimates obligations relating to canceled appropriations that will be paid from future appropriations will not exceed \$1.0 million in any fiscal year.

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NOTE 9
Net Position

Net position of the Bureau as of September 30, 2001 and 2000 was as follows:

FY 2001 <i>(In Thousands)</i>	Trust Funds	Appropriated Funds	Other	Total
Unexpended Appropriations:				
Unobligated - Available	\$ 5,438	\$ 18,948	-	\$ 24,386
Unobligated - Unavailable	-	-	-	-
Undelivered Orders	11,483	176,171	-	187,654
Total Unexpended Appropriations	16,921	195,119	-	212,040
Cumulative Results of Operations	8,215	(55,419)	-	(47,204)
Net Position	\$ 25,136	\$ 139,700	-	\$ 164,836

FY 2000 <i>(In Thousands)</i>	Trust Funds	Appropriated Funds	Other	Total
Unexpended Appropriations:				
Unobligated - Available	\$ 8,929	\$ 19,154	-	\$ 28,083
Unobligated - Unavailable	-	-	-	-
Undelivered Orders	17,755	114,507	-	132,262
Total Unexpended Appropriations	26,684	133,661	-	160,345
Cumulative Results of Operations	12,686	(63,128)	-	(50,442)
Net Position	\$ 39,370	\$ 70,533	-	\$ 109,903

Unexpended appropriations represent the amount of spending authorized as of year-end that is unliquidated or unobligated and which has not lapsed, been rescinded, or been withdrawn. No-year appropriations remain available for obligation until expended. Annual and multiple-year appropriations remain available for upward or downward adjustment of obligations until expired.

Cumulative results of operations are the net results of operations since inception plus the cumulative amount of prior period adjustments.

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NOTE 10
Earned Revenue

Earned revenue represents amounts earned for services provided by the Bureau to other government agencies under reimbursable agreements. ATF has entered into a variety of reimbursable agreements to provide services such as enforcement, training and professional development, science and information technology, and the management of common areas. These agreements are with agencies such as the Secret Service, the Department of Justice, the National Drug Intelligence Center, the Department of Housing and Urban Development, the Department of State, the Environmental Protection Agency, and other components of the Department of the Treasury. ATF maintains a reimbursable agreement with the governments of Puerto Rico and the Virgin Islands which stipulates that any expenses incurred by the Department of the Treasury at these sites are to be fully offset from tax collections related to distilled spirits production or manufacture in those territories.

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NOTE 11
Imputed Financing

Imputed financing sources represent amounts paid in FY 2001 by the Judgment Fund to settle lawsuits and claims against the Bureau. Additional imputed financing is recognized for amounts financed in FY 2001 by OPM to provide future pension and other retirement benefits to current ATF employees.

The cost of providing a CSRS benefit is more than the amounts contributed by ATF and its employees. In accordance with SFFAS No. 5, bureaus are required to report the full cost of providing pension benefits to include the cost financed by OPM. This additional expense totaling \$11.3 million is included as an expense and as an imputed financing source in the financial statements for FY 2001.

ATF 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. Total contributions by ATF of \$49.2 million related to these plans were made for FY 2001. OPM, rather than ATF, reports liabilities for future payments to retired employees who participate in the Federal Employees Health Benefits Program (FEHBP) and Federal Employees Group Life Insurance (FEGLI) Program. In accordance with SFFAS No. 5, ATF is required to report the full cost of providing other retirement benefits (ORB). Currently, ATF does not recognize expenses or contribute funds for the cost to provide health benefits and life insurance to its retirees. The FY 2001 FEHBP cost factor applied to a weighted average number of employees enrolled in the FEHBP is \$2,999, which is provided by OPM. The FEHBP ORB amount totaling \$12.3 million is included as an expense and imputed financing source in ATF's financial statements for FY 2001. The FY 2001 FEGLI cost factor for employees enrolled in the FEGLI program, as provided by OPM, is .02 percent of their basic pay. The FEGLI ORB amount totaling \$53,000 is included as an expense and imputed financing source in ATF's financial statements for FY 2001.

Total imputed financing sources for FY 2001 equal about \$23.6 million (the sum of \$11.3 million for pension expense, \$12.3 million for FEHBP ORB and \$53,000 for FEGLI ORB).

ATF's contributions for active employees who participate in the FEHBP were \$15.7 million for FY 2001. ATF's contributions for active employees who participate in the FEGLI programs were \$591,000 for FY 2001.

<i>(In Thousands)</i>	<u>FY 2001</u>	<u>FY 2000</u>
Funds paid by the Judgment Fund	\$ 1,397	\$ 1,327
Future pension and other retirement benefits financed by OPM	23,624	22,759
Total Imputed Financing	<u>\$ 25,021</u>	<u>\$ 24,086</u>

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NOTE 12
Transfers-In

Transfers-in consist of funds received by ATF from Treasury's Executive Office for Asset Forfeiture (EOAF) to carryout the Bureau's role as a law enforcement entity supporting law enforcement initiatives. EOAF, also known as the Treasury Asset Forfeiture Fund, was established pursuant to the Treasury Forfeiture Fund Act of 1992 and 31 U.S.C. 9703. The Fund serves as the Department's central funding source for financing asset seizure and forfeiture law enforcement initiatives. Although the Fund is the Department's central funding source for these initiatives, EOAF cannot undertake asset seizure and forfeiture. Only law enforcement agencies, including ATF, are lawfully authorized to perform these duties. Consequently, EOAF distributes a portion of the Fund's resources to ATF.

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NOTE 13
Budgetary Resource Information

Adjustments during the period included recovery of prior year obligations and cancellation of FY 1996 and 1995 appropriations in the amount of \$2.5 and \$3.3 million respectively. Based on reviews conducted by ATF at mid-year and year-end, recoveries include any open obligation where all goods and services were received and final payments made were liquidated. On September 30th of the 5th fiscal year after the period of availability for obligation of an annual appropriation (FY 1996), the account is closed and funds returned to Treasury's general fund.

FY 2001	
<i>(In Thousands)</i>	
Net Amount of Budgetary Resources Obligated for Undelivered Orders at Year End	\$ 228,868
Available Borrowing and Contract Authority at Year End	\$ -
Adjustments During the Reporting Period to Budgetary Resources Available at the Beginning of the Year	\$ 21,272
Amount of Contributed Capital Received During the Reporting Period	\$ -

FY 2000	
<i>(In Thousands)</i>	
Net Amount of Budgetary Resources Obligated for Undelivered Orders at Year End	\$ 157,570
Available Borrowing and Contract Authority at Year End	\$ -
Adjustments During the Reporting Period to Budgetary Resources Available at the Beginning of the Year	\$ 46,462
Amount of Contributed Capital Received During the Reporting Period	\$ -

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NOTE 14 Non-Exchange Revenue

As of September 30, 2001, Non-Exchange revenue collections and refunds consisted of the following:

<i>(In Thousands)</i>					
Tax Year	Cumulative Cash Collections Received FY 2001	2001	2000	1999	Prior Years
Excise Taxes	\$13,970,054	\$10,248,276	\$3,719,034	\$ 481	\$ 2,263
Fees and Licenses	109,948	108,788	863	122	175
Fines, Penalties, Interest and Other Revenue	1,196	496	384	32	284
Total Non-Exchange Revenue Collections	\$14,081,198	\$10,357,560	\$3,720,281	\$ 635	\$ 2,722

<i>(In Thousands)</i>					
Tax Year	Cumulative Cash Collections Received FY 2000	2000	1999	1998	Prior Years
Excise Taxes	\$ 13,733,630	\$ 10,422,871	\$ 3,309,694	\$ 207	\$ 858
Fees and Licenses	372,114	371,727	204	78	105
Fines, Penalties, Interest and Other Revenue	514	252	157	75	30
Total Non-exchange Revenue Collections	\$ 14,106,258	\$ 10,794,850	\$ 3,310,055	\$ 360	\$ 993

<i>(In Thousands)</i>					
Tax Year	Refunds Disbursed FY 2001	2001	2000	1999	Prior Years
Excise Taxes	\$ 302,515	\$ 135,868	\$ 158,873	\$ 6,725	\$ 1,049
Fees and Licenses	2,392	2,180	147	38	27
Fines, Accounts Receivable and Other Revenue	103	103	-	-	-
Total Non-exchange Revenue Refunds	\$ 305,010	\$ 138,151	\$ 159,020	\$ 6,763	\$ 1,076

<i>(In Thousands)</i>					
Tax Year	Refunds Disbursed FY 2000	2000	1999	1998	Prior Years
Excise Taxes	\$ 267,388	\$ 135,290	\$ 126,311	\$ 3,033	\$ 2,754
Fees and Licenses	630	431	112	53	34
Fines, Accounts Receivable and Other Revenue	-	-	-	-	-
Total Non-exchange Revenue Refunds	\$ 268,018	\$ 135,721	\$ 126,423	\$ 3,086	\$ 2,788

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NOTE 15

Analyses of Changes in Seized and Forfeited Property

ATF uses the Department of Justice’s Consolidated Asset Tracking System (CATS) to support its fiduciary stewardship responsibilities as they relate to seized and forfeited property. ATF is a full participating member of the Department of the Treasury Forfeiture Fund (TFF).

Accounting methodologies for seized and forfeited property reflect standards published in SFFAS No. 3, Accounting for Inventory and Related Property; OMB Bulletin No. 01-09; and Departmental accounting policy. All property seized or forfeited by ATF for Title 18 forfeiture is accounted for in the financial statements of the TFF. Seized and forfeited property activity is also reported in the notes to the TFF financial statements.

All contraband (prohibited) property such as illegal firearms, ammunition, and explosives which no longer have intrinsic economic value and will not be reintroduced into the open marketplace are subject to destruction. ATF does maintain fiduciary stewardship responsibility for contraband property from time of receipt through final disposition.

The following schedules represent an analysis of the changes in seized and forfeited property holdings for the year ended September 30, 2001 and 2000. ATF reports year-end seized and forfeited property balances based on the most recent information from the United States Attorneys and the Federal Courts on the legal status of this property. Net adjustments to previously recorded balances result primarily from the receipt of updated information on the legal status of this property.

Included in ATF’s ending balance of seized and forfeited property are 428 items that were located in vaults in the World Trade Center. These assets were verified as being on hand during the annual inventory in August. The status of these items is uncertain as of September 30, 2001.

An analysis of change in Material Non-Valued seized property during Fiscal Years 2001 and 2000 is presented by number of line items seized. The analysis is as follows:

FY 2001 Analysis of Changes in Seized Property								
<i>(Number of Transactions)</i>								
	Balance	Net		Cash		Other		Balance
	10/1/00	Adjustments	Seizures	Adjustments	Remissions	Disposals	Forfeitures	9/30/01
General Property -								
Prohibited Units	30,026	3,417	15,818	-	(502)	(228)	(9,858)	38,673

FY 2000 Analysis of Changes in Seized Property								
<i>(Number of Transactions)</i>								
	Balance	Net		Cash		Other		Balance
	10/1/99	Adjustments	Seizures	Adjustments	Remissions	Disposals	Forfeitures	9/30/00
General Property -								
Prohibited Units	25,035	805	12,897	-	(1,502)	(23)	(7,186)	30,026

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For material categories, the ending balances for Material Non-Valued seized property have been restated to actual quantity of items in compliance with Federal Financial Accounting and Auditing Technical Release No. 4. The restated ending balances are as follows:

Seized	2001	2000
Handguns	11,764	10,535
Machineguns	1,591	955
Other	3,157	28,532
Rifles	7,460	9,824
Shotguns	<u>3,787</u>	<u>3,472</u>
Total	<u>27,759</u>	<u>53,318</u>

An analysis of change in Material Non-Valued forfeited property during Fiscal Years 2001 and 2000 is presented by number of line items seized. The analysis is as follows:

FY 2001 Analysis of Disposition of Forfeited Property									
<i>(Number of Transactions)</i>									
	Balance	Net				Transfers to			Balance
	10/1/00	Adjustments	Forfeitures	Deposits	Sales	Transfers	Third	Destructions	9/30/01
							Disposals		
General Property - Prohibited Units	4,331	(1,350)	9,858	-	-	(45)	(259)	(7,722)	4,813

FY 2000 Analysis of Disposition of Forfeited Property									
<i>(Number of Transactions)</i>									
	Balance	Net				Transfers to			Balance
	10/1/99	Adjustments	Forfeitures	Deposits	Sales	Transfers	Third	Destructions	9/30/00
							Disposals		
General Property- Prohibited Units	2,703	197	7,186	-	(1)	(114)	(57)	(5,583)	4,331

For material categories, the ending balances for Material Non-Valued forfeited property have been restated to actual quantity of items in compliance with Federal Financial Accounting and Auditing Technical Release No. 4. The restated ending balances are as follows:

Forfeited	2001	2000
Handguns	1,573	1,660
Machineguns	188	83
Other	430	28,607
Rifles	897	956
Shotguns	<u>399</u>	<u>639</u>
Total	<u>3,487</u>	<u>31,945</u>

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Required Supplementary Information

Budgetary Information

Budgetary Information as of September 30, 2001 and 2000 consisted of the following:

FY 2001 <i>(In Thousands)</i>	Appropriated Funds	Revolving Funds	Trust Funds	Other Fund Types	Total
Budgetary Resources:					
Budget Authority	\$ 776,640	\$ -	\$ -	\$ -	\$ 776,640
Unobligated Balance - Beginning of Period	21,427	-	8,929	-	30,356
Net Transfers, Prior Year Balance	-	-	-	-	-
Spending Authority from Offsetting Collections	40,766	-	-	-	40,766
Adjustments, Anticipated for Rest of Year	13,158	-	2,032	-	15,190
Total Budgetary Resources	<u>\$ 851,991</u>	<u>\$ -</u>	<u>\$ 10,961</u>	<u>\$ -</u>	<u>\$ 862,952</u>
Status of Budgetary Resources:					
Obligations Incurred	\$ 832,030	\$ -	\$ 5,523	\$ -	\$ 837,553
Unobligated Balances - Available	5,827	-	3,406	-	9,233
Unobligated Balances - Not Available	14,134	-	2,032	-	16,166
Total Status of Budgetary Resources	<u>\$ 851,991</u>	<u>\$ -</u>	<u>\$ 10,961</u>	<u>\$ -</u>	<u>\$ 862,952</u>
Outlays:					
Obligations	\$ 832,030	\$ -	\$ 5,523	\$ -	\$ 837,553
Less: Spending Authority from Offsetting Collections and Adjustments	(60,006)	-	(2,032)	-	(62,038)
Obligated Balance, Net-Beginning of the Period	147,592	-	27,663	-	175,255
Less: Obligated Balance, Net-End of the Period	(240,724)	-	(15,625)	-	(256,349)
Total Outlays	<u>\$ 678,892</u>	<u>\$ -</u>	<u>\$ 15,529</u>	<u>\$ -</u>	<u>\$ 694,421</u>

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FY 2000 <i>(In Thousands)</i>	Appropriated Funds	Revolving Funds	Trust Funds	Other Fund Types	Total
Budgetary Resources:					
Budget Authority	\$ 566,292	\$ -	\$ 40,920	\$ -	\$ 607,212
Unobligated Balance - Beginning of Period	29,246	-	7,936	-	37,182
Net Transfers, Prior Year Balance	(734)	-	(3,591)	-	(4,325)
Spending Authority from Offsetting Collections	46,813	-	169	-	46,982
Adjustments, Anticipated for Rest of Year	38,049	-	960	-	39,009
Total Budgetary Resources	\$ 679,666	\$ -	\$ 46,394	\$ -	\$ 726,060
Status of Budgetary Resources:					
Obligations Incurred	\$ 658,238	\$ -	\$ 37,465	\$ -	\$ 695,703
Unobligated Balances - Available	7,700	-	8,929	-	16,629
Unobligated Balances - Not Available	13,728	-	-	-	13,728
Total Status of Budgetary Resources	\$ 679,666	\$ -	\$ 46,394	\$ -	\$ 726,060
Outlays:					
Obligations	\$ 658,238	\$ -	\$ 37,465	\$ -	\$ 695,703
Less: Spending Authority from Offsetting Collections and Adjustments	(91,194)	-	(2,249)	-	(93,443)
Obligated Balance, Net-Beginning of the Period	136,809	-	17,964	-	154,773
Less: Obligated Balance, Net-End of the Period	(147,592)	-	(27,663)	-	(175,255)
Total Outlays	\$ 556,261	\$ -	\$ 25,517	\$ -	\$ 581,778

Claims for Refunds not Accrued

At September 30, 2001 and 2000, ATF had approximately \$38.4 and \$36.8 million, respectively, in refund claims under audit by the Tax Processing Center and the Technical Services offices. Refunds are payable upon approval.

Abatements/Write-offs

At September 30, 2001 and 2000, ATF had approximately \$15.5 and \$5.9 million, respectively, of assessments the entity still has statutory authority to collect at the end of the period, but has no future collection potential and are therefore defined as write-offs.

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Principal Officers of ATF

Director Bradley A. Buckles
Deputy Director Vacant
Chief Counsel John J. Manfreda
Assistant Director (Alcohol and Tobacco Programs) Arthur J. Libertucci
Assistant Director (Field Operations) David L. Benton
Assistant Director (Firearms, Explosives and Arson Programs) John P. Malone
Assistant Director (Inspection) Richard J. Hankinson
Assistant Director (Liaison and Public Information) Mark C. Logan
Assistant Director (Management)/CFO William T. Earle
Assistant Director (Science and Technology)/CIO Patrick R. Schambach
Assistant Director (Training and Professional Development) Gale D. Rossides

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