

Auditor's Report on Financial Statements



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REPORT OF INDEPENDENT ACCOUNTANTS

To the U.S. Department of the Treasury Office of Inspector General and
The Director of the Bureau of Alcohol, Tobacco and Firearms

We have audited the accompanying balance sheets of the Bureau of Alcohol, Tobacco and Firearms (ATF) as of September 30, 2000 and 1999, and the related statements of net cost, changes in net position, budgetary resources, financing, and custodial activity for the years then ended. These financial statements are the responsibility of ATF's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ATF at September 30, 2000 and 1999, and its net cost of operations, changes in net position, budgetary resources, financing, and custodial activity for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and Required Supplementary Information are not required parts of the financial statements but are supplementary information required by the Federal Accounting Standards Advisory Board and OMB Bulletin No. 97-41, respectively. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The Accountability Report includes other information, in addition to the financial statements, Management's Discussion and Analysis, and Required Supplementary Information, which is presented for the purposes of additional analysis and is not a required part of the financial



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statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 19, 2001 on our consideration of ATF's internal control and a report dated January 19, 2001 on its compliance with laws and regulations. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

A handwritten signature in cursive script that reads "PriceWaterhouseCoopers LLP".

January 19, 2001
Arlington, Virginia



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REPORT OF INDEPENDENT ACCOUNTANTS ON INTERNAL CONTROL

To the U.S. Department of the Treasury Office of Inspector General and
The Director of the Bureau of Alcohol, Tobacco and Firearms

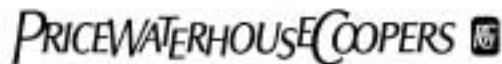
We have audited the financial statements of the Bureau of Alcohol, Tobacco and Firearms (ATF) as of and for the year ended September 30, 2000 and 1999, and have issued our report thereon dated January 19, 2001.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

In planning and performing our audits, we considered ATF's internal control over financial reporting by obtaining an understanding of the agency's internal control, determined whether internal controls had been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 01-02. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982, such as those controls relevant to ensuring efficient operations. The objective of our audits was not to provide an opinion on internal control. Accordingly, we do not express such an opinion.

Because of inherent limitations in any internal control, errors or fraud may nevertheless occur and not be detected. Also, projection of any evaluation of internal control to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

With respect to internal control relevant to data that support reported performance measures, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions, as required by OMB Bulletin No. 01-02. Our procedures were not designed to provide an opinion on internal control over reported performance measures, and, accordingly, we do not express such an opinion.



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We noted certain matters in internal control and its operation that we consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants and OMB Bulletin No. 01-02. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements.

During fiscal year 2000, ATF made improvements in each of the three areas noted in last year's internal control report. In the areas of system change control and segregation of duties controls, the progress made was sufficient to justify no longer considering them as reportable conditions. However, the area of information protection remains a reportable condition, with weaknesses requiring further corrective actions, as noted in the following section.

ATF Can Further Strengthen Controls to Protect Its Information

Last year's audit identified that ATF had a number of access control weaknesses within its financial information systems. Over the past year, ATF made progress addressing these issues. For example, excessive access to certain information systems resources has been reduced. In addition, several policies and procedures have been implemented to provide more management control. However, other weaknesses continue to exist in ATF's client server environment. Further testing this year also has identified new security weaknesses for ATF to address. Because of the sensitive nature of these findings, details and recommendations for correcting these weaknesses will be presented in a separate, limited-distribution management letter to ATF.

* * *

A material weakness in internal control is a reportable condition in which the design or operation of one or more of the internal control elements does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited or material to a performance measure or aggregation of related performance measures may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe the reportable condition described above is not a material weakness.

We also noted certain other matters involving internal control that we will report to the management of ATF in a separate management letter.

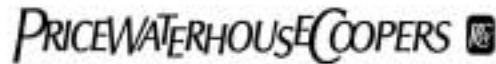


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This report is intended solely for the information and use of the U.S. Department of the Treasury Office of Inspector General, the Department of the Treasury, the management of ATF, the OMB and Congress. This report is not intended to be and should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

PricewaterhouseCoopers LLP

January 19, 2001
Arlington, Virginia



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**REPORT OF INDEPENDENT ACCOUNTANTS
ON COMPLIANCE WITH LAWS AND REGULATIONS**

To the U.S. Department of the Treasury Office of Inspector General and
The Director of the Bureau of Alcohol, Tobacco and Firearms

We have audited the financial statements of the Bureau of Alcohol, Tobacco and Firearms (ATF) as of and for the year ended September 30, 2000 and 1999, and have issued our report thereon dated January 19, 2001.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

The management of ATF is responsible for complying with laws and regulations applicable to the agency. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of ATF's compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts and certain other laws and regulations specified in OMB Bulletin No. 01-02, including the requirements referred to in the Federal Financial Management Improvement Act (FFMIA) of 1996. However, the objective of our audits of the financial statements was not to provide an opinion on overall compliance with such provisions and, accordingly, we do not express such an opinion.

The results of our tests of compliance disclosed no instances of noncompliance with laws and regulations that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 01-02.

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

January 19, 2001
Arlington, Virginia