

**Department of the Treasury**

**Bureau of  
Alcohol, Tobacco and Firearms  
1998 Accountability Report**



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

# VISION & MISSION STATEMENTS

## 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 collectively our goals.



## MESSAGE FROM THE DIRECTOR



**T**his year marked the attainment of several goals that will enhance ATF's ability to fulfill its mission in reducing violent crime, collecting the revenue, and protecting the public. The completion of a unified information technology network (known as Enterprise Systems Architecture), new professional training development, and an organizational restructuring all align with ATF's strategy to build our foundation for the future through technology, human resources, and structure. We are confident that we now have a platform from which our vision for success can be more readily achieved.

ATF's information technology network is predicated on a state of the art computer system that will facilitate innovations in all areas of the Bureau's operations — from improved case management tools for special agents and inspectors; to a centralized financial management framework; to an interactive human resources management system that affords employees immediate assistance and aids managers in making informed, objective personnel decisions; to a web-based conduit of information for ATF's regulated industry members, the law enforcement community, and the public.

Recognizing that the effectiveness of any organization is dependent upon the degree to which its members perform as a team, ATF has incorporated a cross-directorate, multi-occupational element in our new professional training program. A joint course for all new professionals on ATF's mission, strategic plan, and their roles and responsibilities allows early appreciation for the value that each person brings to our strategic plan.

Moreover, before receiving separate technical training, new special agents and inspectors undergo joint training at the Federal Law Enforcement Training Center, reinforcing the importance of an integrated application of ATF's criminal, regulatory, and tax authorities.

In order to take full advantage of this array of specialized tools Congress has provided us to carry out the Nation's laws in alcohol, tobacco, firearms, and explosives, ATF during the past few years has orchestrated a bold restructuring that united regulatory and criminal programs and processes. This year, in a further effort to more effectively deliver key services, eliminate redundancies, and promote teamwork, ATF completed the final component of that reorganization by realigning separate investigative and regulatory field structures into 23 unified field divisions.

We have been equally circumspect with respect to the resources granted us to carry out our mission. For the past four years, independent audits, conducted first by the Department of the Treasury and then by PricewaterhouseCoopers LLP, have produced the highest possible rating on the soundness of ATF's financial systems. Additionally, the evaluation of our management systems for FY 1998, required by the Federal Managers' Financial Integrity Act of 1982, demonstrates compliance with that Act. The evaluation once again disclosed no material non-conformances with ATF's programs or administrative activities or with government-wide requirements in ATF's financial management systems. The Bureau is also in compliance with the requirements of the Federal Financial Management Improvement Act of 1996; reflecting that ATF has implemented and maintained financial systems that comply with Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level.

While this report provides a description of our major accomplishments and strategies, I hope that we are also able to convey the pride and commitment of our special agents, inspectors, auditors, chemists, explosives enforcement officers, fire protection engineers, attorneys, and personnel from many other occupations who enthusiastically devote the major portion of their lives to reducing violent crime, protecting the public, and collecting the revenue.

*John W. Magaw*

## MESSAGE FROM THE CHIEF FINANCIAL OFFICER

**T**hank you for taking the time to read our 1998 Accountability report. We have tried to create in this report a comprehensive summary of our progress and accomplishments over the past fiscal year. It is the work of all of the employees of ATF, our contract personnel and auditors who make this report a reality. Rather than focus on ponderous financial summaries, the goal of this publication is to give you an insight into how we are using varied resources to achieve meaningful results.

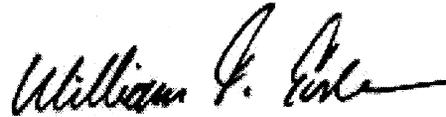
As I reported last year we are aggressively pursuing reporting, payment and accountability solutions that take advantage of enterprise systems and networks. These approaches have already reduced the time it takes to accomplish tasks that in the past took too long and cost too much. Freeing up human resources to be creative and more productive has been a direct outcome that makes for a better workplace and more timely and reliable products.

This report documents the varied missions that ATF personnel carryout around the world. Less heralded perhaps is the important commitment that ATF has to using assets in wise and productive ways. The sources of funding for ATF, though

primarily Congressional appropriations, now include various self-supporting funds and reimbursable authorities. This has assisted in creating a sound federal budget environment while supporting critical missionresponsibilities.

As we plan for the year 2000 and beyond, ATF finds itself well positioned to meet the needs of a diverse population and a rapidly changing world. Though this report is an historical summary of what we have accomplished, it portends a future that finds ATF ready to meet the challenges of an evolving society and business community

I welcome your comments and observations about our report.



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# TABLE OF CONTENTS

Vision and Mission Statements .....	i
Message from the Director .....	iii
Message from the Chief Financial Officer .....	iv
Executive Summary .....	vi
1998 Highlights .....	1
Organizational Profile .....	3
Program Discussion and Analysis .....	5
Reduce Violent Crime .....	5
Collect Revenue .....	11
Protect the Public .....	13
Program Support .....	17
Financial Discussion and Analysis .....	25
Auditor's Report on Financial Statements .....	31
Financial Statements .....	39
Notes to the Financial Statements .....	47
Required Supplemental Information .....	65
Principal Officers .....	66



# EXECUTIVE SUMMARY

**T**his report marks the fourth year that the Bureau of Alcohol, Tobacco, and Firearms (ATF) has prepared an Accountability Report. PricewaterhouseCoopers LLP has issued an “unqualified opinion” on ATF’s 1998 financial statements. Fiscal Year (FY) 1998 was a notable year, not only at ATF, but throughout the Federal government, as agencies continued striving to produce audited financial statements in compliance with the requirements of the Chief Financial Officers Act of 1990, as amended by the Government Management Reform Act of 1994.

In FY 1998, the theme of this report centers around “Foundations for the Future: Technology, Human Resources,

and Structure”. The report includes the following information: the Chief Financial Officers (CFO) Act audited financial statement results; performance measure data as required by the Government Performance and Results Act (GPRA); Federal Managers’ Financial Integrity Act (FMFIA) assurance; Federal Financial Management Improvement Act (FFMIA) assurance; Prompt Payment Act performance data; the status of audit recommendations; and Program Discussion and Analysis data.

The Program Discussion and Analysis section reports on ATF’s three major activities: *Reduce Violent Crime, Collect the Revenue, and Protect the Public,*

*and the programs that support these activities.* Also included in the Program Discussion and Analysis section this year are performance measures and measurable results. This fiscal year the Treasury Inspector General’s Office of Evaluations responded to a request from ATF to perform an audit of two ATF performance measures. The audit was completed and several suggestions were offered by the Inspector General for strengthening these measures. Through such collaborative efforts, ATF will continue to improve and refine its performance measures to show the impact of ATF’s work and the value derived to the public from the resources expended.

## Reduce Violent Crime

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

## Collect the Revenue

- Collect all the Revenue Rightfully Due
- Fully Implement the National Revenue Center
- Use Electronic Commerce

## Protect the Public

- 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

# 1998 HIGHLIGHTS

- Collected \$12.4 billion in revenue generated from Federal taxes and fees imposed on alcohol, tobacco, firearms, and ammunition products.
- Entered into a Memorandum of Agreement with the American Re-Insurance Company, the United States Fire Administration and the National Fire Protection Association to develop a state-of-the-art interactive CD-ROM/virtual-reality training of fire investigation.
- Created the National Integrated Ballistics Information Network (NIBIN) which combines ATF's former CEASEFIRE and the FBI's Drugfire Programs into a federally-sponsored initiative, creating a partnership among ATF, the FBI, State and local law enforcement.
- Expanded the Youth Crime Gun Interdiction Initiative that focuses on determining the sources of firearms recovered from juvenile and youthful offenders to ten additional cities for a total of 27 cities.
- Initiated the design phase for development of the Fire Research Laboratory with construction anticipated to begin in late 1999.
- Conducted 22 "train-the-trainer" classes with 668 police officers participating from across the United States in ATF's Gang Resistance Education and Training Program (GREAT). In addition, 374 state and local agencies sponsored GREAT classes for over 364,248 school children, an increase of twelve percent.

- Deployed the Enterprise System Architecture to all ATF employees providing a current technology of Pentium computers utilizing a seat management concept.
- Experienced a 250% increase in ATF's Internet web site visits from 700 per day in FY 1997 to over 2,500 during FY 1998. (<http://www.atf.treas.gov>)

- Held the first "New Professional Training" program, consisting of a two-week Core Training course at Bureau headquarters, for new employees and the first Joint Agent/Inspector Training at the ATF Academy in Glynco, Georgia. The joint training was followed by specific occupation training for agents and inspectors.



(From left to right): Director John W. Magaw; Robert Burgess, American Re-Insurance; Carrye B. Brown, U.S. Fire Administration; and George D. Miller, National Fire Protection, sign a Memorandum of Agreement that will make a reality the CD-ROM interactive software to train law enforcement, firefighters and insurance investigators nationwide in fire investigation and the fight against arson crime. Congressman Steny Hoyer (D-MD) and former Treasury Under Secretary Raymond W. Kelly, standing (l-r), lend their support.

- Completed the Bureau's "field restructuring" to create an organization that is unified in both philosophy and structure.
- Completed the first phase of ATF's cost accounting project by revamping the project code structure to align with the Strategic Plan and the budget. This is a major step toward complying with the legislative mandates that require agencies to be held more accountable for their resources.

- Played a significant role in drafting the "Inter-American Convention against the Illicit Manufacturing of and Trafficking in Firearms, Ammunition, Explosives, and Other Related Materials," which was negotiated by the Organization of American States. This convention has become the model for firearms-related documents that are being discussed by other international organizations.

## 1998 HIGHLIGHTS

- ☛ Partnered with the Department of State funded international training for 920 police officials from 45 countries. ATF supplied the course development and instructors.
- ☛ ATF employees completed a total of 11,109 training courses and 49,047 other Federal, state, local and international law enforcement officers, and industry personnel participated in ATF-sponsored training.
- ☛ Expanded the Ombudsman's Office to assist in seeking fair, equitable solutions to work-related concerns through an informal, confidential process; and to coordinate many employee support programs.



**Students testify before Congress on behalf of the GREAT program.**

# ORGANIZATIONAL PROFILE



ATF is a Federal law enforcement organization that serves as the nation's expert on what are largely legal consumer products: alcohol, tobacco, firearms and explosives. These products require special attention due to the important social consequences of misuse. ATF represents a uniquely concentrated resource for providing investigative, commercial regulation, tax collection, technical, scientific, and legal expertise focused on 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 items while fighting unlawful use.

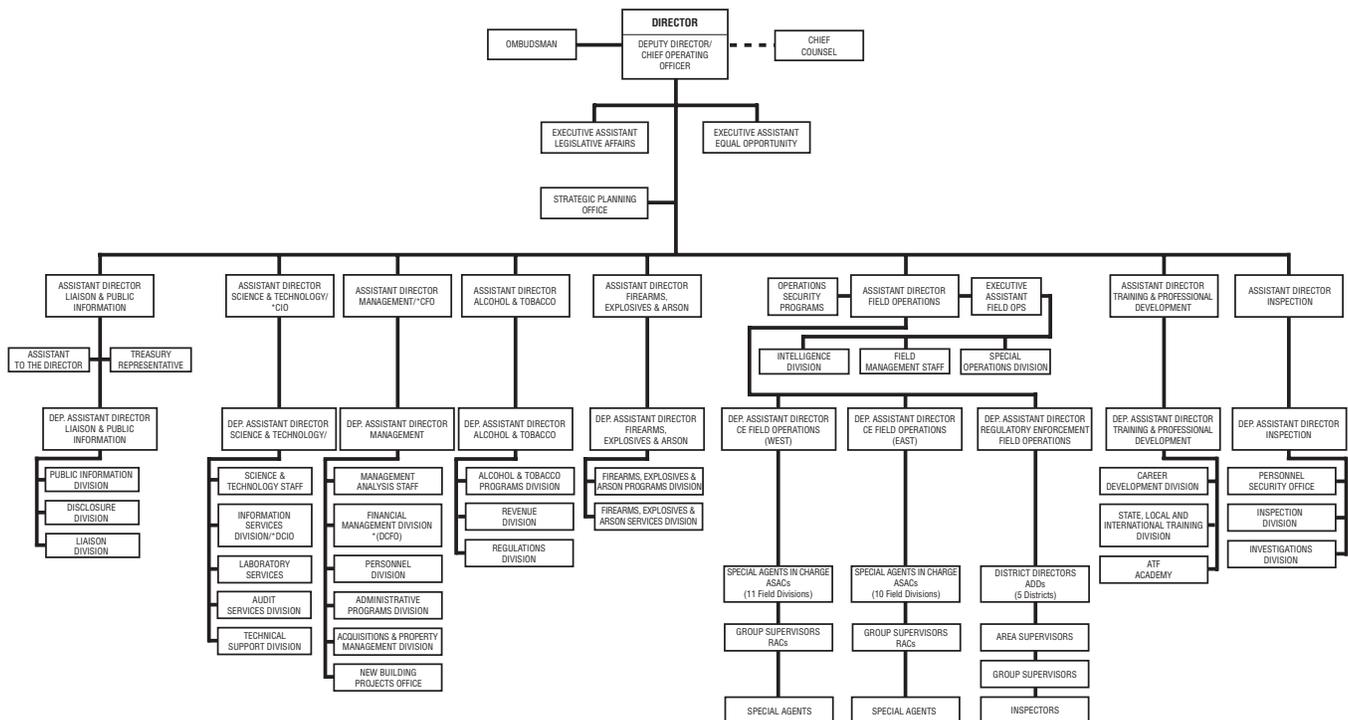
Bureau Headquarters, located in Washington, DC, consists of offices that develop major policies and programs in accordance with the applicable laws and regulations ATF enforces. The ATF executive structure consists of the Director, Deputy Director, Chief Counsel, and the Assistant Directors for Field 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 Management Team). The Office of the Director includes the Deputy Director, Ombudsman, Executive Assistants for Legislative Affairs, Equal Opportunity, and the Strategic Planning Office.

Geographically, ATF has offices in every major U.S. city, and in Mexico, Canada, Colombia, Guam, U.S. Virgin Islands, and Puerto Rico. During FY 1998, the field structure of 21 criminal enforcement Field Divisions and five Regulatory Enforcement District Offices was slated for merging effective October 1, 1998. In its place will be a homogeneous field structure comprised of 23 Field Divisions strategically located throughout the



## Department of the Treasury Bureau of Alcohol, Tobacco and Firearms



- \*CIO - CHIEF INFORMATION OFFICER
- \*DCIO - DEPUTY CHIEF INFORMATION OFFICER
- \*CFO - CHIEF FINANCIAL OFFICER
- \*DCFO - DEPUTY CHIEF FINANCIAL OFFICER

**ORGANIZATIONAL PROFILE**

United States—with a single executive heading each office and having responsibility for all law enforcement activities assigned to the Office of Field Operations. Plans are underway for field divisions to have on-site legal and audit support as well as equal opportunity policy advisors.

In addition, the Bureau operates several service centers and training facilities located throughout the United States as follows:

- 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.
- ATF Academy, located at the Federal Law Enforcement Training Center in Glynco, Georgia, and a satellite office at Fort McClellan in Alabama.

As of September 30, 1998, the Bureau had 4,042 employees on board, of which 3,938 were full-time permanent employees. Additional information on the Bureau's programs can be found in the Program Discussion and Analysis section of this report. Also, ATF's Internet Home Page contains other supporting reference materials (<http://www.atf.treas.gov>).

**Funding**

**Sources of Funds**

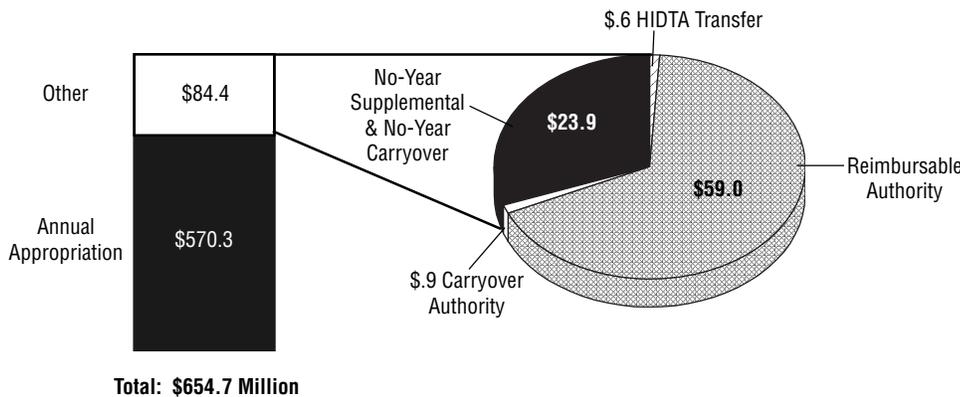
The total budget authority available for use by ATF in FY 1998 was \$654.7 million. Of that amount, the Congress appropriated \$478.9 million for the Bureau's Salaries and Expenses; \$29.4 million for the Violent Crime Reduction Trust Fund; and \$62.0 million for the Laboratory Construction Fund. An additional \$84.4 million was made available from other sources. These other sources included the following: no-year carryover funds of \$23.9 million; appropriation transfers of \$.6 million

from the Office of National Drug Control Policy to support ATF efforts in High Intensity Drug Trafficking Areas; \$59.0 million in reimbursable authority from other Government agencies; and \$.9 million, which represents 50 percent of the FY 1997 unobligated balance.

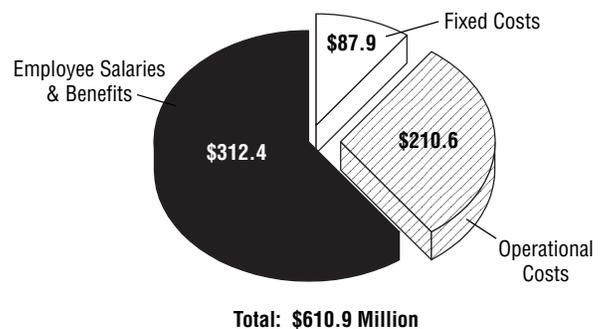
**Uses of Funds**

ATF incurred obligations of \$610.9 million during FY 1998. Of the \$41.8 million in budget authority that was not obligated in FY 1998; \$2.2 million represents the Bureau's Salaries and Expenses; \$16.3 million represents no-year appropriation carryover funds available for use in FY 1999; \$23.3 million represent reimbursable funding of which \$20.7 million is no-year and available for use in FY 1999. In addition, \$2.0 million was transferred to the Secret Service.

**Sources of Funds  
FY 1998**



**Uses of Funds  
FY 1998**



# PROGRAM DISCUSSION AND ANALYSIS

## REDUCE VIOLENT CRIME

**T**hrough this activity, ATF enforces provisions of the Gun Control Act of 1968, the National Firearms Act, the Brady Law, and the Violent Crime Control and Law Enforcement Act of 1994. Because many Federal laws contain provisions for mandatory extended sentences, ATF strives to increase state and local awareness of available Federal prosecution under these statutes.

**Strategic Goal:** To contribute effectively to a safer America by reducing the future number and cost of 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:** Crime-related costs avoided (\$ in billions). This measure tracks the sentencing and costs of criminals prosecuted and the cost associated with violent criminals who are not incarcerated. Currently, measures refer to firearms related programs only. Revised measures are under development to include reduction in other violent program areas.

**Plan:** \$1.0

**Actual Results:** \$.99

**Performance Measure:** Future crimes avoided. This number denotes the number of violent criminals imprisoned multiplied by the number of crimes that would have been committed by these criminals. Currently, measures refer



ATF agents carrying parts of a truck bomb that was driven into a courthouse.

to firearms related programs only. Revised measures are under development to include reduction in other violent program areas.

**Plan:** 440,000

**Actual Results:** 503,955

**Performance Measure:** Number of non-ATF persons trained/developed. This measure tracks the number of individuals who are trained by ATF personnel including Federal, state, local, and international law enforcement personnel as well as industry members who attend ATF seminars.

**Plan:** 52,000

**Actual Results:** 49,047

**Performance Measure:** Number of firearms traces.

**Plan:** 225,000

**Actual Results:** 188,299

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

**Plan:** 12.0

**Measured Results:** 18.8

### ❖ DENY CRIMINALS ACCESS TO FIREARMS

This program involves projects and services that identify, deter, and stop the sources of and participation in illegal firearms trafficking.

#### Illegal Firearms Trafficking

ATF reduces the availability of illegal firearms to criminals by identifying illegal sources of firearms and incarcerating illegal firearms traffickers. Overall goals include recommending for prosecution the most active illegal firearms traffickers, preventing future firearms crimes, and reducing crime-associated costs by incarcerating illegal firearms traffickers.

#### Youth Crime Gun Interdiction Initiative

This initiative is a focused component of ATF's nationwide Illegal Firearms Trafficking Project which identifies and investigates the illegal sources of guns to

youths and juveniles. In response to increased crimes involving America's youth, ATF developed and deployed the Youth Crime Gun Interdiction Initiative in FY 1996. In FY 1997, the Youth Crime Gun Interdiction Initiative was deployed in 17 cities. In FY 1998, the initiative was expanded to ten additional cities. A major goal of the Youth Crime Gun Interdiction Initiative is to trace all recovered crime guns in participating cities.

**National Tracing Center**

The ATF National Tracing Center is the only operation of its kind in the world. This facility traces firearms recovered in crimes and from juveniles for any Federal, state, local or international law enforcement agency. A firearms trace result is frequently the crucial piece of evidence that can link a criminal to a firearms-related crime and allow law enforcement officials to make an arrest. At a minimum, firearms trace information provides investigators with leads on the origin of the crime-related firearms in their investigations. The tracing center is also the only repository for all Federal firearm licensee out-of-business records, where millions of records are currently stored. Specific goals for FY 1998 were to increase the number of trace requests received through efficiency improvements involving increased electronic access to the tracing center. During FY 1998 ATF developed and initiated the Electronic Trace Submission System which will be deployed during FY 1999.

**Stolen Firearms**

This project seeks to reduce thefts of firearms from Federal firearm licensees and interstate carriers transporting firearms. This project is designed to assist the illegal firearms trafficking program by reducing the number of stolen firearms available to the criminal element. This is accomplished through collecting and analyzing firearm licensee and interstate carrier theft information, and providing

investigative leads to special agents and inspectors.

**❖ SAFEGUARD THE PUBLIC FROM ARSON AND EXPLOSIVES INCIDENTS**

An integral part of the Bureau's overall violent crime reduction strategy, ATF's arson and explosives projects are directed toward preventing the criminal misuse of explosives and the crime of arson, as well as providing effective post-incident response. ATF, in part, measures its success by the amount of savings to the public resulting from proactive investigations. This is particularly true with arson-for-profit schemes. ATF's efforts in this regard save money for the insurance industry, and ultimately the American public, by exposing millions of dollars in fraudulent claims annually.

**Prevent Criminal Misuse of Explosives**

Through this program, ATF provides resources to identify and pursue those who criminally misuse explosive materials in bombings and arson fires. Within ATF is a cadre of explosive technology personnel with unique capabilities in the explosives and bomb disposal fields. They construct facsimiles of explosive and incendiary devices; prepare destructive device determinations for court purposes; conduct render safe procedures on destructive devices, improvised incendiary and explosives devices and booby traps; provide expert analyses of intact and functioned explosive/incendiary devices; provide onsite technical investigative assistance during tactical operations, and bombing and arson scene examinations; issue classifications for new explosives and incendiary devices and materials; and keep abreast of the latest technology related to explosives.

In addition, personnel provide technical advice on Federal explosives storage regulations; provide training and

instruction in all aspects of explosives handling, storage, and destruction for Federal, state, local, and foreign law enforcement officers, and members of the explosives and pyrotechnics industries; participate as explosives origin and cause experts in all National Response Team and International Response Team activations; conduct explosives threat assessments; and assist the Department of State and the Diplomatic Security Service in conducting antiterrorism capability assessments outside the continental United States.

**National Repository**

In 1996, Congress, recognizing ATF's expertise in the arson and explosives arena, passed legislation authorizing the Secretary of the Treasury to establish a National Repository of information on arson incidents and the criminal misuse of explosives throughout the United States. The Secretary of the Treasury tasked ATF to carry out this congressional mandate. ATF's mission is to establish a national repository of information on incidents involving arson and the criminal misuse of explosives. The information will be available for statistical analysis and research, investigative leads, and intelligence. This National Repository will be an extension of the ATF Arson and Explosives Incidents System (AEXIS) and will incorporate information from a variety of law enforcement and fire service sources. ATF recognizes that partnership with other agencies is integral to the success of the National Repository. A database is being designed with input from Federal, state, and local fire service and law enforcement personnel. The principal Federal partners in the data collection effort are ATF, the Federal Bureau of Investigation (FBI), and the United States Fire Administration (USFA).

The National Repository's development was divided into three phases. Phases one and two were completed in 1997 and 1998. Phase one involved the establish-

ment of a public internet site that provides aggregate statistical summaries of data regarding arson and explosives incidents from data collected by ATF, the FBI, and the USFA. The information currently listed on this site is not integrated with data from other agencies. Phase two involved the modernization of the ATF's AEXIS. Data from this ATF system, which dates back over 20 years, will be supplied to the final National Repository in phase three.

Phase three, to be completed late in 1999, will integrate data from all contributing sources. It will provide statistical information to the public, and it will establish a secure web site that will provide investigative information via authorized user groups. The National Repository's secure site will be a law enforcement and fire service intelligence database designed to aid investigators in identifying trends and similarities between arson and explosives incidents. The National Repository will help authorized investigators identify case-specific similarities regarding explosive and incendiary device construction, methods of initiation, types of fuels/explosives used, and methods of operation. The system will link thefts of explosive material with the later criminal misuse of the explosives. Through partnership with other Federal, state, and local law enforcement and fire service agencies, the system will also help identify persons who commit crimes of violence using arson or explosives. The system will link investigators who may be investigating similar incidents and will rely on communication among investigators to disseminate case-specific information on a case-by-case basis.

### Church Fires

In early 1996, Federal officials detected a sharp rise in the number of reported attacks at houses of worship, especially 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 Agency, 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.

At the conclusion of the second year, the task force published a second report to the President for the period of January 1, 1995 through September 8, 1998. The task force has opened 670 arson/bombing investigations. A total of 308 defendants have been arrested nationwide which solved 230 of the 670 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.

### Canines

In 1989, ATF and the Connecticut State Police began a formal training program for accelerant-detecting canines to

support state and local jurisdictions (accelerant-detecting canines search for liquid catalysts that can be used to speed up the spread of fire). Through FY 1998, a total of 60 accelerant-detecting canines have been trained and certified by ATF for state and local agencies. In 1998, six additional accelerant detection canine teams were trained by ATF at the Canine Enforcement Training Center in Front Royal, Virginia.

In 1990, ATF entered into an agreement with the U.S. Department of State, Office of Antiterrorism Assistance, to produce a more effective explosive detection canine training program. Under this training arrangement, ATF trains explosive detection canines for foreign countries to



ATF Special Agent and canine investigate for explosives materials.



be used overseas in the war against terrorism and to protect American travelers abroad against terrorism. ATF has trained 160 canine teams for the program, deployed in eight countries worldwide. In FY 1998, ATF trained 21 additional canine teams and two canine trainers for the Department of State, Office of Antiterrorism Assistance. ATF continues to perform assessments of additional foreign countries for placement in this program. ATF has eight special agent/canine teams stationed in Atlanta, Dallas, Miami, Los Angeles, Tulsa, San Francisco, and two teams stationed in Washington, DC.

ATF has developed odor recognition proficiency standards for explosive detection canines. The Department of the Treasury published these standards. ATF will continue to work in conjunction with other Federal agencies employing explosive detection canines to validate and test these standards over the next year.

ATF has trained three odor detection canine teams for state/local law enforcement agencies and three canine teams for other Federal law enforcement agencies.

**Research Initiatives**

In FY 1998, in conjunction with the U.S. Army Corps of Engineers, the National Security Council, and the Defense Nuclear Agency, ATF continued to participate in a project known as Dipole Might. Its objective is to create a computer database and investigative protocol to assist investigators when processing large car bomb scenes. In 1998, the tests were expanded to include the evaluation of road sign damage from blasts, taggant survival and explosive residue testing.

Currently, the Bureau has two full-time fire protection engineers, making ATF the only Federal enforcement agency that employs this level of specialized, professional expertise. ATF's fire protection engineers are dedicated solely to the

analyses of origins and dynamics of fire as they pertain to criminal investigations.

In FY 1996, Congress approved funding for the construction of a new National Laboratory Center and Fire Investigation, Research and Education Center. ATF is currently involved in site negotiations for the facility. The building design is expected to be completed by April 1999. Both buildings will be fully operational by the year 2001.

In FY 1996, President Clinton signed the Antiterrorism and Effective Death Penalty Act, which called for a study of taggants. ATF continues to use an Explosive Taggant Study Group to study the tagging of explosive materials for purposes of detection and identification; the feasibility and practicality of rendering common chemicals used to manufacture explosive materials inert; the feasibility and practicality of imposing controls on certain precursor chemicals used to manufacture explosives materials; and State licensing requirements for the purchase and use of commercial high explosives. An interim report was issued in FY 1998. ATF has implemented a partnership with the fertilizer industry, incorporating voluntary reporting of suspicious purchasers of ammonium nitrate to ATF. This year, a formal program "Be Aware for America" was initiated between ATF and the Fertilizer Industry. This program encourages the sellers of ammonium nitrate to know their buyers. Research into current and proposed technology will continue.

**Effective Post-Incident Response**

ATF has long held that a coordinated and rapid deployment of highly trained and well-equipped individuals 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 1998, the team provided effective post-incident response in 27 activations. These incidents involved \$85.6 million in damages and were responsible for 12 deaths and 23 injuries. The NRT also continued assistance in the investigation of the Birmingham Abortion Clinic Bombing. The Bureau continued to issue customer satisfaction surveys to those who used the NRT this year. The responses received have been positive. When all surveys are received, ATF will again tabulate the data to determine the National Response Team's effectiveness.

ATF also maintains the International Response Team, formed as a result of an agreement with the Department of State. The team has been deployed to such countries as Peru, Argentina, Pakistan, El Salvador, and Macedonia. Since its inception in 1991, the International Response Team has been activated 14 times for incidents involving explosives and fires. In FY 1998, the International Response Team was activated to Vilnius, Lithuania to provide technical assistance to the Government of Lithuania which was conducting a national investigation into a series of 26 bombings directed against Government facilities.

ATF provides vital resources to local communities in the wake of arson and explosives incidents. ATF pioneered the development of multi-agency task forces designed to pool resources and expertise in areas experiencing significant arson problems. In FY 1998, ATF led formal arson task forces in 15 major metropolitan areas throughout the United States.

A certified fire investigator (CFI) and certified explosives specialist (CES) are critical to the success of a comprehensive post incident response. ATF's CFIs are the only investigators trained by a Federal law enforcement agency to qualify as expert witnesses in fire cause determinations. In

FY 1998, there were 75 of these investigators stationed throughout the United States. Thirteen certified fire investigator candidates will graduate in April 1999 and nine more candidates just began the two-year training program. This provides strategic placement of these investigators throughout the country to assist Federal, state and local agencies with fire origin and cause determinations and training. ATF's 280 CES personnel, who have developed an unmatched level of expertise in postblast analysis through years of experience, are proficient in all aspects of explosive identification, handling, instruction, demonstration, and destruction. These specialists contributed to many of the explosive investigations opened in FY 1998.

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, Forensic Services. The office also provides comprehensive forensic science services, supports the task forces by providing 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.

❖ **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 furtherance of their criminal activity.

**Achilles**

This project uses specific Federal firearm laws that mandate extended mandatory periods of incarceration to remove the

most dangerous, armed career criminals and armed drug traffickers from the streets. Firearms use and possession by these violent criminals become their "Achilles heel" as they are exposed to lengthy prison sentences under these Federal laws. The firearms they possess yield valuable information regarding their previous criminal acts and criminal associates. Further, through firearms tracing, the illegal firearms sources for these violent criminals are investigated under ATF's Illegal Firearms Trafficking project. These two projects are complementary. A major goal is to incarcerate armed violent criminals for longer periods of time to prevent future crimes of violence and the costs of those crimes to the American public. Sentences have substantially increased because ATF special agents have been more effective at focusing on the more dangerous and violent armed criminals.

and new forensic technology. Under the NIBIN Program, ATF is utilizing a state-of-the-art system that allows firearms technicians to digitize and automatically correlate and compare bullet and shell casing signatures at a greatly accelerated rate. The equipment expeditiously provides investigators with leads to solve greater numbers of crimes in a shorter period of time. The technological advances of this initiative draw upon the Integrated Ballistics Identification System (IBIS). The NIBIN strategy has been designed to incorporate technological advances with various skilled human resources in a concerted effort to reduce firearms-related crimes.

ATF, the Federal Bureau of Investigation (FBI), and a representative from State and local law enforcement, have formed a partnership to ensure that agencies who want to acquire automatic ballistics



IBIS Specialists examine evidence being processed using the Rapid Brass Identification System technology.

**National Integrated Ballistics Information Network**

The purpose of this project is to provide support to law enforcement agencies experiencing serious firearms-related violent crime. It is based on providing focused investigative assistance to our partners through the integration of ATF's various firearms enforcement programs

technology are provided an opportunity to do so. An agency representative from ATF, the FBI, and the Boston Police Department serve on the NIBIN board.

The NIBIN concept combines ATF's former CEASEFIRE and the FBI's Drugfire Programs into a federally-sponsored initiative that creates a partnership among

REDUCE VIOLENT CRIME

ATF, the FBI and state and local law enforcement. The NIBIN board will set policy, develop budgets, review requests for system technology, and execute spending plans. The board is committed to ensuring that cartridge case compatibility is achieved between IBIS and Drugfire. An objective of the board is to provide state and local requesters with the particular system that best meets their needs.

❖ **PREVENT VIOLENCE THROUGH COMMUNITY OUTREACH**

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

**GREAT**

The mission of the Gang Resistance Education and Training (GREAT)

Program is to provide classroom instruction for school-aged children and a wide range of community-based activities resulting in the necessary life skills, a sense of competency, usefulness, and personal empowerment needed to avoid involvement in youth violence and criminal activity. The Bureau provided funding to 101 different agencies to support their participation in the GREAT program. Over 1,265 communities have officers certified to use the program.

On May 14, 1998, GREAT students, accompanied by their parents, GREAT officers, community sheriffs and police chiefs, came to Washington, DC from as far away as Arizona, Colorado, and Wisconsin, to testify before the Senate Appropriations Committee on behalf of the GREAT program. The constant theme found in the students' statements was "GREAT works". In fact, students and officers, alike, reported benefits from the

program that reached beyond gang avoidance, such as conflict resolution skills, improved grades, and enhanced interaction between the law enforcement community and youths.

As a result of pilot collaborative efforts with four communities and their police departments, along with the Boys and Girls Clubs, a formal agreement was signed by the Director to develop a long-term relationship with the Clubs and continue the experimentation with teaching the GREAT curriculum in non-school environments. These partnerships seem to assist communities in providing positive places for the children to go during the summer months, where they have positive role models and adult leadership who reinforce the lessons taught during the school year in GREAT.

# PROGRAM DISCUSSION AND ANALYSIS

## COLLECT REVENUE



plays a critical role in the Federal Government's tax collection process.

Through this activity, the Bureau collects over 12 billion dollars in excise taxes on alcohol, tobacco, firearms, and ammunition.

**Strategic Goal:** To maintain a sound revenue management and regulatory system that continually reduces taxpayer burden, improves service, collects the revenue due, and prevents illegal diversion.

**Programs:** This strategic goal is accomplished through three programs:

- ❖ Fully Implement the National Revenue Center
- ❖ Collect All Revenue that is Rightfully Due
- ❖ Use Electronic Commerce.

**Performance Measure:** Taxes/fees collected from alcohol, tobacco, firearms and explosives industries. This measure includes revenue collected through alcohol and tobacco excise taxes.

**Plan:** \$12.8 billion

**Actual Results:** \$12.4 billion

**Performance Measure:** Ratio of taxes and fees collected vs. resources expended to collect. This measure represents the amount of taxes and fees collected, divided by the amount of resources to collect such taxes and fees.

**Plan:** \$224:\$1

**Measured Results:** \$248:\$1

**Performance Measure:** Burden hours reduced. This measure reflects the reduction in hours from FY 1997 to FY 1998 to comply with

ATF regulations including the preparation of forms.

**Plan:** 1,450,681

**Measured Results:** 963,570

### ❖ FULLY IMPLEMENT THE NATIONAL REVENUE CENTER

Effective management of taxpayer accounts and proper receipt of tax returns and payments ensure that ATF accurately collects and reports all receivables. Work performed by the employees of the National Revenue Center in Cincinnati, Ohio and two technical service offices in San Francisco and Philadelphia is an essential part of managing taxpayers' accounts and collecting receivables. The principal activities of these entities are office audits of tax returns and reports, audits of claims, collection actions, review and approval of applications for permits, registration of plants and surety bonds, and maintaining custody of official case files.

During FY 1998, ATF continued to consolidate by reducing the number of technical service offices from three to two and by taking over the functions of the Tax Processing Center. By the year 2001, the National Revenue Center will process all tax and permit matters nationwide. Much of the work from the remaining Philadelphia and San Francisco offices has already been transferred to the National Revenue Center. Not losing sight of our commitment to ATF's customers, a full-time and dedicated customer service representative in the National Revenue Center is now on board to help resolve problems, and get customer input and buy-in on the new changes taking place.

In FY 1998, the process of building a permanent home for the National Revenue Center was ninety percent completed, and several technological improvements were implemented. At the National Revenue Center, a document and imaging workflow management system is being implemented to reduce the volume of paper files and to improve the access to vital information. This system will assist in more efficient processing of documents and applications received in the National Revenue Center. At all levels within ATF, the database systems for critical tax and permit operations are being upgraded, and should be completed in FY1999. ATF also began fully automating the processing and analysis of industry operational reports.

### ❖ COLLECT ALL REVENUE RIGHTFULLY DUE

ATF collected \$ 12.4 billion, before refunds, in taxes, interest, penalties, and fees in FY 1998, of which 97 percent are derived from alcohol 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. On-site inspections of those who pay alcohol, tobacco, firearms, and ammunition taxes are focused on facilities posing the greatest risk to the revenue based on the volume of operations, past history of violations, relative strength of internal controls, and financial condition. A more detailed description of the various types and sources of revenues follows in the Financial Statements, Note 13, Non-exchange

Revenue page 64. The National Revenue Center and technical services offices continuously monitor tax collections by auditing tax returns and assessments; initiating enforced collection action; analyzing required reports; and accounting for tax payments, licensing fees, and related refunds. These offices also review and act on applications and bonds submitted by companies that produce or sell alcohol or tobacco products. When criminal conduct is suspected—as with diversion or label fraud cases—teams of ATF special agents, auditors, and inspectors conduct complex investigations of violations of the Federal Alcohol Administration Act and the Internal Revenue Code.

**Diversion and Smuggling**

ATF is engaged in an ongoing endeavor to reduce the rising trend of illegal diversion of cigarettes and distilled spirits. ATF's goal is to achieve compliance with U.S. laws that will greatly reduce the illegal diversion of alcohol and tobacco products. Diversion occurs with products for both export and domestic consumption from a manufacturer to individuals acting as brokers or wholesalers. The product is diverted and sold illegally rather than shipping the product to the destination stated on required Federal records. Diversion activities also defraud the United States of tax revenues. For example, cigarettes and distilled spirits are often fraudulently claimed for export markets (for which there is no tax liability) when, in fact, they are diverted back into the U.S. domestic market for sale where taxes should apply.

ATF pursues tax assessments against domestic producers and individuals when the documentation offered to ATF to support the tax-free exportation of these products often is either counterfeit or absent. ATF considers administrative action or criminal prosecution against retailers, wholesalers, and manufacturers who knowingly supply smuggling

organizations. Illegal commerce also occurs when trafficking alcohol and tobacco from states with a low excise tax to states with a high excise tax.

The seizure of alcohol beverages and tobacco products by ATF agents and inspectors in 1998 has resulted in over \$1.1 million being credited to the Treasury Forfeiture Fund. In FY 1998, 53 defendants were recommended for prosecution and several members of organized crime groups have been successfully prosecuted.

**Alcohol Trade Issues**

The solidification of the European Union, the emergence of new Pacific Rim economies, and the movement of former Soviet States to market economies have had a major influence on the world economy. While this global economy provides new opportunities for U.S. producers of alcohol beverages, the changing political and economic landscape also produces 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 concerning the North American Free Trade Agreement, and with the European Union and in deliberations of the World Trade Organization. ATF also monitors and analyzes changes in foreign trade and political policies to anticipate and overcome potential barriers to U.S. interests. ATF represents the U.S. wine and brandy interests through membership and participation in the International Organization of Vine and Wine, and assists the governments of developing world market economies to establish effective revenue collection models through training courses offered in cooperation with the Department of State.

**❖ USE ELECTRONIC COMMERCE**

In FY 1998, a number of improvements were made to the ATF Internet site for its customers (alcohol, tobacco and firearms and ammunition manufacturers) and for the public. These improvements included a special message to alcohol beverage retailers, the latest information about ATF policies, procedures and servicing offices, tobacco and wine statistics, on-line search capabilities concerning ATF label approvals, and opportunities to read about, and respond via e-mail to the latest ATF proposed rulemakings. This information can be obtained on <http://www.atf.treas.gov>. Additionally, imaging of a large number of documents (returns, claims, applications, letters, etc.) was accomplished at the National Revenue Center. This effort will reduce ATF's space needs, minimizing overhead operational costs. It will reduce manual handling of documents to decrease costs and to provide a secure and effective means of retrieval. These documents are now available to all ATF employees electronically.

In FY 1999, ATF will start imaging label approvals and make them available on line through the Internet. Optical Character Recognition (OCR) of certain returns will be explored for use during the next fiscal year. ATF has begun the electronic filing of certain forms through a pilot program with certain industry members. If this is successful, ATF will expand this program which will reduce industry burden in compiling these forms and ATF's burden in using the information from these forms. Even more important, ATF has committed to having all of its tax and related permit databases Year 2000 (Y2K) compliant.

# PROGRAM DISCUSSION AND ANALYSIS

## PROTECT THE PUBLIC

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

**Strategic Goal:** To 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 Laws and Regulations through Education, Inspection, and Investigation
- ❖ Inform the Public

**Performance Measure:** Response to unsafe conditions (explosives). This measure tracks the number of corrections made to unsafe conditions reported to ATF and from inspection activities.

**Plan:** 677

**Actual Results:** 1,071

**Performance Measure:** The number of seminars held by commodity.

**Plan:** 122

**Actual Results:** 227

**Workload Measure:** Number of inspections (explosives).

**Plan:** 8000

**Actual Results:** 8,908

**Workload Measure:** Percent of population inspected (firearms).

**Plan:** 10%

**Actual Results:** 11.3%

### ❖ ASSURE THE INTEGRITY OF THE PRODUCTS, PEOPLE, AND COMPANIES IN THE MARKET-PLACE

This program ensures that commodities meet safety and product identity standards, and also focuses on keeping ineligible or prohibited persons out of the regulated industries.

#### Assuring Alcohol Product Integrity

ATF conducts a full range of regulatory functions in the alcohol beverage industry. The Federal Alcohol Administration Act, passed shortly after the repeal of Prohibition, coupled with certain Internal Revenue Code provisions and the Alcohol Beverage Labeling Act, authorizes ATF to regulate fully the industry and to provide protection to consumers of alcohol beverages. Each year, through the market basket sampling program, ATF collects alcohol products from the marketplace for analysis by ATF laboratories. The sampling program includes samples collected directly from producers or bottlers. If any problems or unsafe conditions are found, they are investigated by ATF. ATF also investigates any complaints that are received from consumers or other agencies regarding contaminated or adulterated alcohol beverage products. Testing of the product is conducted at the ATF laboratories. ATF's laboratories work closely with counterparts at the United States Food and Drug Administration and with 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.

#### Certificates of Label Approval

ATF is charged with protecting the consumer by preventing false or misleading claims on beverage labels and in advertising. The Bureau enforces the Government Health 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 every alcohol beverage offered for sale in the United States.

The Bureau remains strongly committed to improving customer service for label and formula approvals. In FY 1998, as a result of satisfaction surveys sent to industry members, two major initiatives were implemented; the Beverage Alcohol Manual and the Beverage Alcohol Streamlining Team (BAST). The Beverage Alcohol Manual will be a comprehensive guide to address labeling and associated topics, and the first sections will be sent out shortly to the industry for review and comments.

The BAST identified a streamlined method of team operation to provide quality and efficient services. Its operations will begin in FY 1999 to ensure safety of alcohol beverages; provide consumers with an understanding of the identity of alcohol beverages; correctly classify beverage alcohol products for tax collections; and ensure that the alcohol beverages meet Federal Drug Administration standards for human consumption.

**Deny Prohibited or Ineligible Persons Entry into the Regulated Industries**

Alcohol and tobacco producers, packagers, wholesalers and importers of alcohol beverages, tobacco export warehouses and users of industrial alcohol must meet certain mandatory requirements, and apply for, and obtain a Federal permit. ATF examines and verifies applications, bonds and other documents, and conducts investigations of applicants, and makes a decision on their eligibility for permits. The Gun Control Act of 1968 mandates that every manufacturer, importer, or dealer in firearms obtains 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 a license. 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 are required to obtain a Federal license from ATF to conduct business and certain users of explosives are required to obtain a Federal permit.

**❖ 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. Inspections of firearm licensees focus on assuring that firearms are properly accounted for. In the explosives industry, the emphasis is on safe and secure storage of explosives as well as accountability. Alcohol and

tobacco inspections check on compliance with product and trade practice provisions. Education initiatives such as industry seminars are utilized in all industries.

**Federal Firearms Licenses and Inspections**

Once a licensee is engaged in business, inspectors ensure the licensee's compliance with Federal laws and specific recordkeeping regulations. ATF enforces the licensing provisions of the Gun Control Act of 1968 by conducting on-premises inspections.

ATF implemented procedures for routinely providing the Chief Law Enforcement Officer in each jurisdiction information on the status of Federal Firearms Licensees in that area. Working in partnership with state and local law enforcement officials, ATF can effectively address licensing and illegal firearms trafficking problems.

**Alcohol Industry Inspections**

ATF inspects alcohol plants to assure that products are manufactured in keeping

with approved formula processes so that products fulfill labeling and advertising claims. ATF investigates anti-competitive business practices between alcohol beverage suppliers and retailers to preserve the retailers' economic independence. The Bureau also investi-

gates consumer complaints of tainted or adulterated alcohol beverages.

**Explosives Licenses/Permits and Inspections**

ATF maintains a regular program of on-site inspections to ensure that explosives are stored in approved facilities, which are secure from theft and located at



ATF inspectors perform an alcohol plant audit.

prescribed distances from inhabited buildings, railways, and roads. These inspections ensure that the licensees and permittees keep accurate records of the receipt and disposition of explosive material which 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 on persons who purchase explosives without benefit of a license or permit for "same day use with no overnight storage".

ATF initiated a program that requires each field area office to notify the local fire department of licensees/permittees storing explosive materials and the location of the storage. This was done to aid in minimizing accidental injury to fire officials fighting fires in buildings or structures that may house explosive materials.

**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 explosive 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, the seminars are conducted jointly with the state alcohol beverage control agencies to provide the total compliance enforcement picture to those in attendance. In FY 1998, ATF conducted 14

seminars. These seminars will continue throughout 1999 and the future.

**National Firearms Act**

The National Firearms Act requires that certain firearms be registered in what is known as the National Firearms Registration and Transfer Record. Firearms required to be registered are machine guns, silencers, short-barreled rifles, destructive devices, and certain concealable weapons classified as "any other weapons." ATF processes all applications to make, export, transfer, transport, and register National Firearms Act firearms, as well as notices of the National Firearms Act firearms manufactured or imported.

**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 it issues do not conflict with the foreign policy and national security interests of the United States. At the direction of the Department of State, ATF lifted the arms trade restrictions imposed against the Russian Federation. Additionally, the Department of State subsequently

directed ATF to lift the arms trade restrictions imposed against the Ukraine, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Turkmenistan, and Uzbekistan.

**❖ 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.



ATF personnel participate in public awareness events.



**Industry and State Partnerships**

The Bureau continues to expand partnerships with regulated industries and state governments to educate the public on ATF's regulatory commitments. For example, the Office of Science and Technology initiated the Partnership Formula Approval Process, which was instituted for all beverage and flavor manufacturers after a successful trial program. This new business process was a result of a joint effort of ATF, the alcohol beverage industry, and the flavor industry. The result of this collective effort was a dramatic reduction in the average approval time required for flavored beverage alcohol products from eight weeks to less than two weeks.

ATF established liaison with several governmental agencies working toward a common goal of public safety in the explosives industry. The Department of Transportation is supplying ATF with a list of its product approval numbers for use in determining the appropriate classification of explosive materials entering into commerce either through domestic production or through importation. ATF furthered its relationship with

industry associations such as the Institute of Manufacturers of Explosives and the American Pyrotechnic Association to develop an Advanced Explosives Training class for all ATF inspectors. All classes are conducted at Fort McClellan, Alabama.

ATF established relationships with the Federal Aviation Administration (FAA) to explore the mutual regulatory oversight required in the interaction of commercial site operators for commercial space launchers. Launch site operators may include state government agencies, state-chartered entities, state-sponsored entities, and commercial entities. At FAA's request, ATF has been inspecting explosive storage magazines at specified major airports. ATF has established a relationship with the Consumer Products Safety Commission to regulate effectively the fireworks industry. The Consumer Products Safety Commission and Department of Transportation have also been instrumental in providing instruction at the Advanced Explosives Training sessions. The Bureau is also exploring refinement of its relationship with the Mine Safety and Health Agency to share

more information regarding explosives and the coal mining industry.

ATF is working with the American Shooting Sports Council to clarify (to the industry and law enforcement community) the implications of the Lautenberg Amendment (domestic violence). An industry circular for distribution to all parties concerned is in process.

ATF continues to work closely with counterpart state liquor control and taxation agencies and industry groups. ATF has become a center for industry-related information by making label approval data available through its Internet site. With the addition of providing images of approved alcohol beverage labels, states can decrease parallel requirements, provide more efficient and timely access to data, and reduce delays to industry.

# PROGRAM DISCUSSION AND ANALYSIS

## PROGRAM SUPPORT

### TRAINING

**T**he Office of Training and Professional Development (TPD) provides high quality, innovative training programs in support of ATF's Strategic Plan by improving the performance of its employees, and assisting in their professional development. These programs are delivered at Bureau Headquarters, the ATF Academy, field divisions, or various satellite training sites across the country, and around the world.

As a result of an assessment of the training needs of various occupations in the Bureau that began in January 1997, the New Professional Training Program (NPT) was developed. Particular emphasis was placed on the training programs of inspectors and agents. The ever-increasing collaboration in work activities between these two occupations pointed towards a need for common training. Through field input, a number of areas were identified for joint training. The need to educate all occupations as to the functions, missions, and duties of other occupations in the Bureau appeared to be a common training need as well in all directorates.

#### Core Training

This training is for ATF employees who are promoted into or hired into two-grade interval positions with less than two years ATF experience. The overall objective is to orient employees to their roles and responsibilities as they relate to others and the overall mission of ATF. "CORE" training promotes interaction among ATF occupations and starts the process of building employees' pride in ATF and in one another. The students are made aware, up front, of why ATF is moving in this new direction and how this training supports ATF's goal of a safer



ATF students graduate from CORE training class.

America through innovation and partnerships. Five CORE classes were conducted with 108 students participating. Each class required the coordination of over 40 instructors. CORE also covers critical aspects of mandatory training for all new employees such as Operations Security, computer security, legal issues, ethics, disclosure and integrity. The importance of professional working relationships with others is emphasized in Professionalism, Diversity, and EEO topics.

#### New Professional Joint Agent/Inspector Training

Joint agent/inspector training consisted of six and one half weeks of training on topics of shared responsibility. New Professional Training afforded the agents and inspectors the opportunity to build solid working relationships and to learn uniformly information relative to their individual and respective positions. At the conclusion of joint training, agents received another nine weeks and inspectors another three weeks of occupation-specific training on technical issues. The first class began on July 20, 1998, at the ATF Academy and concluded on October 30, 1998.

#### Other FY 1998 accomplishments included the following:

- Provided approximately 11,109 training courses to ATF employees that included mandatory training requirements, technical, occupational, leadership and employee career programs;
- Provided training to approximately 49,047 other Federal, state, local, international law enforcement officers, industry personnel, civilians and civic organizations. Topics included arson investigation, explosives identification and regulation, firearms trafficking/identification, gangs, post-blast investigations, advanced interviewing techniques, and firearms serial restoration;
- Conducted one two-week Crisis Negotiation training for newly selected ATF crisis negotiators;
- Conducted in-service training sessions in the area of crisis management for approximately 400 participants;

## PROGRAM SUPPORT

- Planned and implemented the Bureau's five Special Response Teams' (SRT) Regional Command Post Exercises;
- Planned and executed the Annual FOP/ATF Gang Conference;
- Developed and delivered 18 SRT training courses;
- Provided training for 21 SRT members in the use and operation of the Magellan Global Positions Satellite System;
- Finalized a cooperative effort with the Federal Aviation Administration to develop and deliver four training programs targeted to the aviation security industry; also, delivered jointly-sponsored "SEMTEX 98" seminars with FAA at three airports to deal with explosives-related incidents and preparedness for these events;
- Trained 119 inspectors in advanced explosives for the first time;
- Managed the certification of 47 Certified Explosives Specialists (CES), the recertification of 99 CES, and the recertification of 75 Certified Fire Investigators to contribute effectively to explosives and arson investigations;
- Signed a Memorandum of Understanding to develop the Interactive Fire Investigation CD ROM virtual reality training program with other Federal agencies and private insurance industry personnel, that focuses specifically on methods for using LEAD data to develop firearms trafficking cases and how to develop case presentations to enhance the willingness and ability of the US Attorney's Office to prosecute such cases; and

- Continued to develop partnerships with universities, various industries, the scientific and technical community, and cooperative agreements with the Bureau's extended enterprise to provide for a sound and safer America.

### **SCIENCE AND TECHNOLOGY SUPPORT**

The Office Science and Technology/Chief Information Officer (CIO) plays a key role in the Bureau's overall enforcement functions. The CIO also serves 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 before the start of the new millennium.

#### **Information Infrastructure**

In FY 1998, ATF modernized its IT through completion of deployment of its Enterprise Systems Architecture (ESA), an infrastructure that ensures ATF's strategic and day-to-day business requirements are supported by IT that is secure, reliable, available, Y2K date compliant, and maintainable. ESA provides ATF with the ability to collect, clarify, and communicate the information needed to accomplish its mission to reduce violent crime, collect revenue, and protect the public. In October 1997, ATF awarded a blanket purchase agreement for "seat management" services. Under this unified approach to the management, operation, and maintenance of desktop computing services and the associated network infrastructure, the contractor provides the entire suite of hardware including: desktop and notebook personal computers (PCs), printers, servers, commercial off-the-shelf (COTS) software and support services in the areas of networks management, operations, training, help desk services and other maintenance support. ATF leases these services as a utility for which ATF pays on a "per seat"

basis. The lease approach allows ATF to upgrade the IT infrastructure and to acquire the current technology without having to incur capital ownership costs. As new products become available via the GSA schedule, the seat management contractor is able to make technology "refreshments" available to ATF through modifications of the blanket purchase agreement. This concept should provide cost savings and productivity gains because the common operating environment is continually managed and maintained.

ESA supports 4,100 employees nationwide. Field personnel, i.e., agents, inspectors, and auditors received notebook PCs with docking stations and office workstations are equipped with desktop PC's. All employee workstations are connected via local area networks (LANs). The LANs are connected via a high-speed wide-area network that serves as the electronic backbone of ATF's data communications. Every employee is equipped with a Pentium or Pentium II computer running Microsoft Corporation's Windows 95 operating system and the Office 97 Professional Office Suite, anti-virus software, Microsoft Exchange electronic mail, and security software to encrypt data stored on notebook PCs.

#### **Data Communications Infrastructure**

In FY 1998, ATF installed a new data communications infrastructure, interconnecting its 188 points of presence in the 50 States and U.S. territories. ATF selected a frame relay service as the network backbone.

The new network infrastructure provides more efficient ways for ATF to manage and transmit data, text and images-facilitating key capabilities like electronic mail and access to the Internet, intraweb services, and other law enforcement systems such as the Department of Justice's National Crime Information Center.

## Year 2000

The Year 2000 Program Management Office (Y2K-PMO) operates under the auspices of the Office of Science and Technology (OST). The Assistant Director-OST is the bureau's Y2K Senior Executive responsible for both IT and non-IT Y2K readiness. The Y2K-PMO has completed the identification and assessment of all mission critical systems. Modifications and replacements of our non-compliant hardware and software, as well as non-IT components, are underway to ensure that all systems continue to function properly as the century date changes. All mission critical systems will be fully compliant by the end of Fiscal Year 1999.

Efforts to determine the readiness of external trading partners and regulated industry members have been initiated via our "OUTREACH" program. Bureau representatives have also held discussions with other federal government agencies, software and hardware vendors and manufacturers, and financial institutions to keep abreast of their efforts. Bureau representatives will continue to monitor and assess the extent to which their operations are vulnerable should they fail to meet Y2K-related goals that have an impact on ATF.

The Bureau conducted a three-day off-site workshop for purposes of developing contingency plans for each of its mission critical systems. These plans are being reviewed for operational effectiveness and actions are underway to ensure that these plans will allow the Bureau to maintain operational readiness. All system-level contingency plans are scheduled for completion by March 1999.

The Y2K-PMO recently assessed all areas of the Bureau's Y2K program. For each area, the Y2K-PMO is determining the degree of risk. The purpose of this assessment is to ensure that efforts and resources are directed to those areas

where ATF is most vulnerable to negative operational impacts. At this point, the Bureau's greatest risk is in the area of tax payment receipts. ATF collects over \$12 billion annually in federal excise and other taxes from regulated industries. Y2K interruptions in industry operations or banking/payment processes could have an adverse impact on prompt receipt of tax payments. The Y2K-PMO is working with all parties involved in the payment stream to ensure readiness.

While the Y2K-PMO feels the Bureau's planning efforts are adequate to address Y2K concerns, there can be no guarantee that systems of other entities on which our systems and operations rely will be compliant on a timely basis and will not have a material effect on ATF.

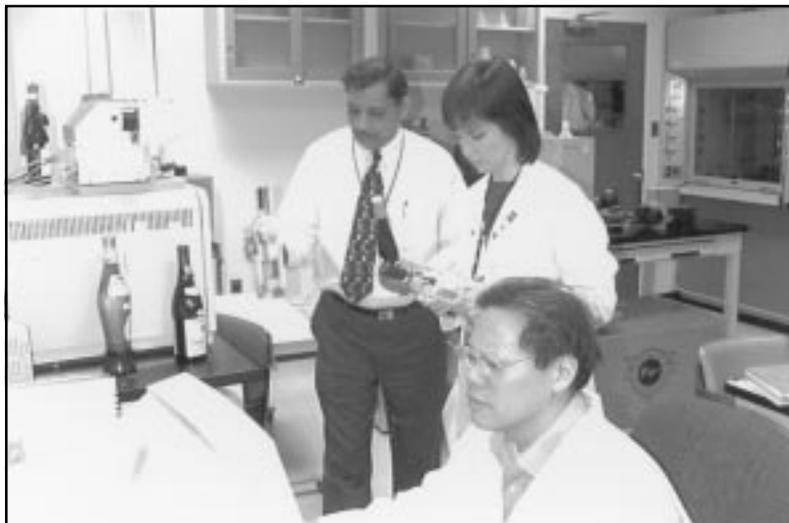
The total cost to ATF for the Y2K program is \$56.2 million (\$37.6 million in planned replacements, and \$18.6 million in unplanned expenditures resulting from compliance testing).

## Laboratory Services

ATF laboratories specialize in examining bombing, arson, and firearms evidence and in analyzing alcohol and tobacco products. This includes laboratory testing and on-site assistance. Extensive control measures are maintained to

ensure the quality and integrity of laboratory operations and products. These include:

- Accreditation: ATF's three forensic science laboratories are fully accredited by the American Society of Crime Laboratory Directors;
- Proficiency Testing: ATF maintains an independent test sample service to ensure individual examiner proficiency;
- Internal Controls: All examiner findings are reviewed by a second examiner and a supervisor to ensure accuracy, completeness, and that scientifically valid conclusions have been drawn;
- Safeguards: ATF employs stringent, evidence packaging protocols to detect and guard against contamination among forensic samples and cases;
- Management: All laboratory management personnel are subject matter experts within their specific discipline; and
- Methodology: All ATF laboratories use analytical methods and procedures that meet the highest quality assurance standards for precision and accuracy.



Alcohol and Tobacco Laboratory staff analyze wines for pesticide.

**Audit Services**

Audit Services provide an important investigative tool for solving financially motivated crimes such as arson and the illegal diversion of alcohol and tobacco products. Auditors determine the financial condition of the business and its ownership, develop investigative leads and criminal charges through examinations of financial records, participate in conducting interviews, assist the case agent in determining if an insurance claim is fraudulent, provide pre-trial briefings to the U.S. Attorney's office, and testify as expert witnesses at trials. This service has also expanded to respond to financial investigations in the areas of alcohol and tobacco diversion, firearms trafficking, gang-related cases and money laundering schemes, while continuing to focus and successfully prosecute in the Arson-for-Profit cases.

**Technical Support**

Technical Support to field agents and inspectors includes tactical radio communications, vehicles, new investigative equipment, investigative supplies, agent safety equipment including body armor, electronic surveillance technologies, computer forensics, training of tactical operations officers and technical enforcement officers, and audio, visual, graphics and photographic support services.

FY 1998 highlights included:

- Conducted Technical Countermeasure Surveys of five ATF field offices in order to ensure a safe and secure working environment for ATF employees assigned to those offices, in partnership with the U.S. Secret Service and with training provided by the National Security Agency; and
- Processed 2,841 requests for audio/visual, graphics and photographic support from customers within ATF as well as the Department of the Treasury.

**LIAISON AND PUBLIC INFORMATION SUPPORT**

The Liaison and Public Information office serves as principal advisor on matters relating to the public, media and industry information, policies and compliance with the Freedom of Information and

Privacy Acts. The office establishes and maintains Embassy contacts, police official liaisons and reviews responses to all inquiries received from the Department of the Treasury and Congressional offices, as well as correspondence for the Director.

**ATF's Internet/Intranet**

Under the office of the Liaison and Public Information, ATF has expanded its Internet site to include current information, links to the Federal Register, information specific to ATF's directorates, and expanded firearms questions. The web site continues to be positively received. Visits to the site have increased from 700 per day in 1997 to more than 2,500. Congressional offices, the public and members of the industries that ATF regulates visit the site daily. In 1998, ATF received more than 8,000 e-mail queries from the public, the media and industry members. ATF's Intranet service is an



ATF's latest technological vehicles on display at the Treasury Partnerships/IT '98 Conference.



internal “bulletin board” designed and updated daily to provide information on ATF’s activities, programs, forms, publications, current events, and initiatives to ATF employees. This service is also linked to the Treasury Intranet.

### **INSPECTION SUPPORT**

The Bureau maintains an Office of Inspection 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 Office of Inspection is also responsible for conducting employee integrity investigations, either criminal or administrative, as well as other sensitive investigations assigned by the ATF Director.

### **SPECIAL OPERATIONS SUPPORT**

This support includes polygraph examinations, airborne operations, assistance to undercover investigations, coordination of mission support to major events, the Olympic Games, the U.S. Secret Service, the Department of State, the United Nations; participation in gang enforcement programs, and management of the Witness Security Program. During FY 1998, polygraph program examiners conducted approximately 400 examinations of suspects, informants, and witnesses. Of the tests conducted, conclusive opinions were rendered over 90 percent of the time.

The National Communications Center/ Enforcement Operations Center provides Bureau-wide tactical communications and record communications support and access to various law enforcement information databases. During FY 1998, the National Communications Center received and assisted in 1,507 hotline calls and 2,383 Federal firearms licensee calls.

Critical Incident Management support coordinates the Special Response Team, Crisis Negotiations Team, and Operational Medical Support Program. During FY 1999, a full-time contingent of Special Response Team personnel will commence. In addition, ATF has implemented a Critical Incident Management System (CIMS), which is a uniform approach to prepare for, respond and support critical incidents, major/complex investigations, and significant enforcement operations. CIMS will standardize ATF’s efforts to integrate other Federal, state, and local emergency resources in response to critical incidents.

The Enforcement Support Program oversees ATF’s participation in the Interagency Crime Drug Enforcement (ICDE) Task Force Program. ATF’s existing enforcement strategies direct special agents to target violent organizations using firearms, arson, or explosives and to target active felons who are violent recidivists using or possessing firearms or explosives. The ICDE guidelines also required the establishment of full-time coordinators to be collocated in office space furnished by the core city U.S. attorney’s office. In FY 1998, ATF established nine full-time coordinator positions and one program manager. ATF receives funding on a reimbursable basis to support this program.

### **STRATEGIC INTELLIGENCE SUPPORT**

Strategic intelligence support remains a critical tool and force multiplier for ATF to accomplish successfully its missions of reducing violent crime, collecting revenue, and protecting the public. FY 1998 represented a hallmark year for a multi-initiative re-engineering of ATF’s Intelligence infrastructure that included its organization, technology, missions, and partnerships. Highlights of the re-engineering include the development of

the following elements:

- Coordination and monitoring of significant/sensitive field investigations;
- Analytical support for domestic investigations and issues;
- Development and maintenance of state-of-the-art information collection, analysis, and dissemination systems;
- Analytical support for trans-national investigations and regulatory issues through partnership and connectivity to members of the Intelligence Community and international law enforcement entities;
- In-depth analysis and support to key national investigations such as the National Church Arson Task Force cases; and
- Establishment of field intelligence units at each of ATF’s 23 Field Divisions strategically located throughout the United States, comprised of special agents, analysts, inspectors, and support staff who focus on providing tactical intelligence support for their respective field divisions as well as their external law enforcement partners. These Field Intelligence Units, operating synergistically with each other and the Intelligence Division, constitute an unprecedented cohesive Bureau-wide intelligence network.

ATF maintains intelligence liaison positions with the National Drug Intelligence Center (NDIC), El Paso Intelligence Center (EPIC), Financial Crime Enforcement Network (FinCEN), Interpol, the National Security Agency (NSA), the Central Intelligence Agency (CIA), and the Federal Bureau of Investigation Counter Terrorism Center (FBI/CTC). Furthermore, during FY 1998, ATF entered into a

**PROGRAM SUPPORT**

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. These partnerships are a key component of ATF's Strategic Intelligence Plan and the means by which ATF maximally contributes to the nation's law enforcement and intelligence communities.

During FY 1998, Phase 1 of a state-of-the-art automated case management/intelligence reporting system was developed entitled N-FORCE. N-FORCE eliminates redundant manual data entry on hardcopy forms and provides a total reporting and information management application in a secure electronic environment. An evaluation of an earlier proof of concept to N-FORCE resulted in a conservative estimate of improved efficiency in reporting of over 25 percent. N-FORCE will constitute the information collection and management vehicle by which ATF's special agents conduct their business. Deployment of N-FORCE to ATF's 23 Field Divisions began in September 1998.

A companion application to N-FORCE called N-SPECT will provide similar functionality and benefits for ATF's inspectors as they enforce industry regulations and revenue collection. Deployment of the first phase of N-SPECT is slated for early calendar year 1999. N-FORCE and N-SPECT, combined, will feed a central repository N-FOCIS (Field Office Case Information Systems) to allow ATF to analyze fully and exploit the information for its maximum potential intelligence value. N-FOCIS epitomizes the strength and unique value of ATF's combined criminal and regulatory enforcement missions complementing one another.

Noteworthy accomplishments during FY 1998 include:

- Activated Intelligence Response

Teams in support of 13 investigations including the Birmingham Bombing; two pipe bombings in Illinois; a major arrest operation in Oakland, California; and the World Nike Games;

- Collected and analyzed approximately 9,500 investigative leads during these call-outs;
- Reviewed over 72,000 intelligence community electronic messages of which over 10,000 were identified as pertinent to ATF's mission and subsequently disseminated to the appropriate offices;
- Assisted the Department of Energy (DOE) with on-site threat assessments of four special nuclear materials facilities across the United States; and
- Prepared the second Annual National Church Arson Task Force Report released under the signature of the President of the United States.

**MANAGEMENT SUPPORT**

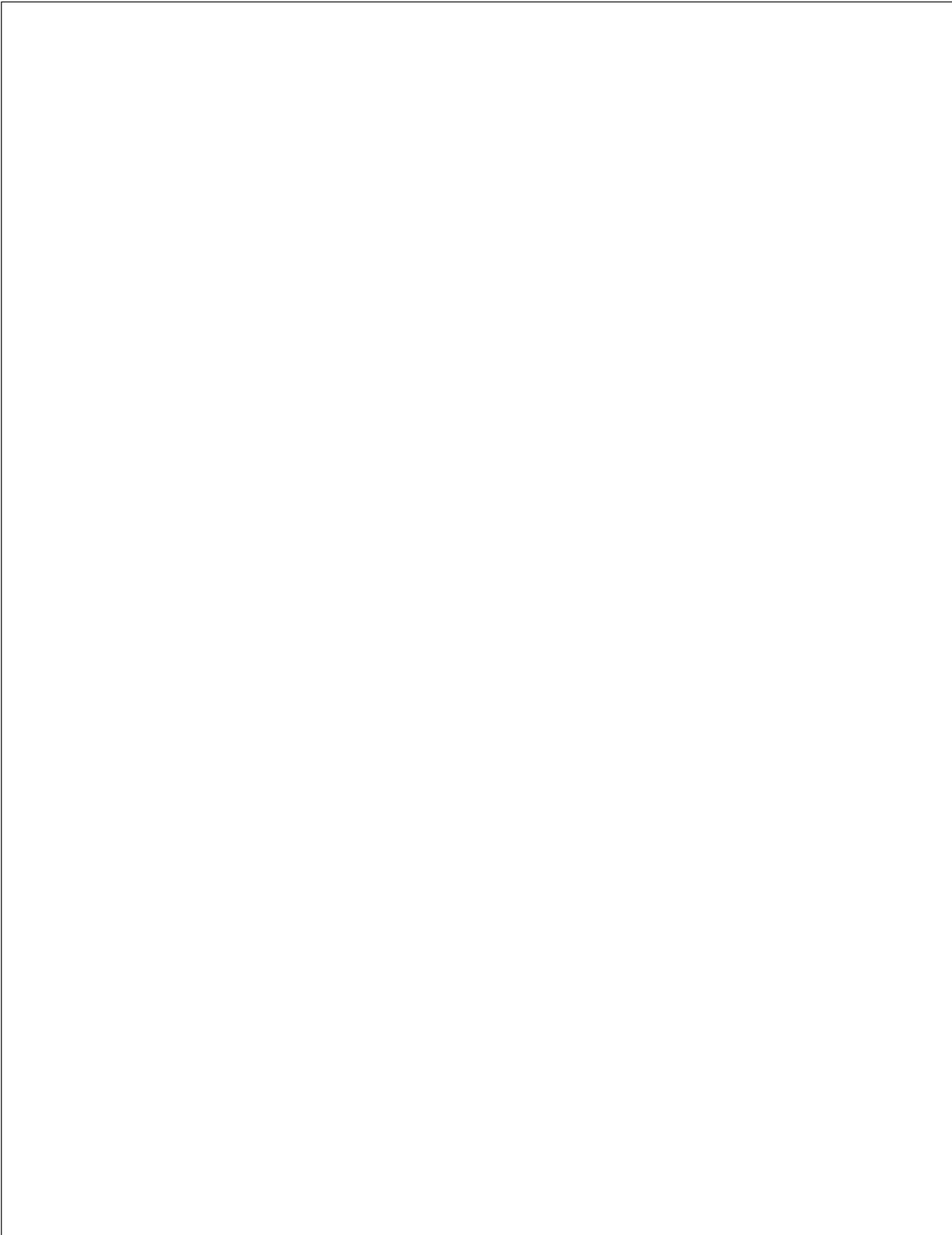
The Office of Management provides leadership, coordination, and direction and works in partnership with other senior Bureau officials in executing ATF's core business processes (finance, human resources, procurement and administrative programs) to support the Bureau's mission. In Fiscal Year 1998, the Office focused on operating fiscally sound, meeting external mandates, protecting Bureau resources, and improving customer service. Specific accomplishments include:

- Led the effort that resulted in ATF receiving an Unqualified Audit Opinion for the fourth consecutive year;
- Developed Year 2000 (Y2K) contingency plans for mission-critical information technology

systems such as payroll and vendor payment. Also contingency plans were developed for building facilities and security systems;

- Obtained authorization from the Congressional Subcommittee on Public Buildings for the ATF Headquarters Relocation Prospectus and narrowed the potential sites for the new Laboratory Center. (Nationally, there have been only six authorized Federal construction projects passed through the House and Senate in the last three years. The ATF Headquarters and National Laboratory are two of the six.);
- Implemented heightened security measures at Bureau Headquarters and standardized the security requirements for all major field offices;
- Implemented several external initiatives/mandates:
  - ◆ the Welfare to Work Program;
  - ◆ the Federal Computers to Schools Program; and
  - ◆ issued a "Compliance Statement" to close out the Bureau's responsibilities relating to the John F. Kennedy Assassination Review Board;
- Implemented a Resource Management Committee represented by each Bureau directorate to make recommendations to senior management on budget resource issues;
- Adopted a program that encourages employees to sell their homes without using a third party relocation company to help offset the rising cost of permanent change of station moves;

<ul style="list-style-type: none"> <li>● Trained the ATF/NTEU negotiating team on interest-based bargaining rather than the traditional, positional bargaining;</li> <li>● Entered into an agreement with Department of Justice to provide childcare service vis-à-vis a new shared facility;</li> <li>● Initiated plans to move ATF's financial system from the mainframe to a client-server platform, which will ultimately: <ul style="list-style-type: none"> <li>◆ eliminate "cuff" records and remove various audit findings associated with reconciliation of two systems;</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>◆ facilitate cost accounting data on Bureau programs;</li> <li>◆ allow Program Managers to incorporate financial data into everyday decision-making;</li> <li>◆ make ATF compliant with Federal Y2K and Electronic Commerce standards; and</li> <li>◆ handle financial documents electronically;</li> <li>● Provided Contracting Officers' Technical Representative (COTR) refresher training for personnel handling significant procurements to improve management controls;</li> </ul>	<ul style="list-style-type: none"> <li>● Developed and implemented a vault inventory (bar code) system at two major field sites to track more efficiently asset forfeiture and seized property;</li> <li>● Reduced Office of Workers' Compensation Program costs; and</li> <li>● Restructured the Office of Management to meet customer and stakeholder needs better.</li> </ul>
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# FINANCIAL DISCUSSION AND ANALYSIS

***ATF's financial management vision is "to enable ATF to work better and cost less. Financial and program personnel will work in partnership, using modern management techniques and integrated financial management."***



continued the vision through its various management initiatives.

FY 1998 was an extraordinary year, not only at ATF, but throughout the Federal government, as agencies continued to meet the requirements of the Chief Financial Officers Act of 1990, the Government Management Reform Act of 1994, the Government Performance and Results Act of 1993, the Debt Collection Improvement Act of 1996, the Federal Managers' Financial Integrity Act of 1982, and the Federal Financial Management Improvement Act of 1996.

In recent years, ATF has made significant progress in implementing Federal financial management reforms and incorporating advances in information management technology into its processes. As a result of these actions, ATF is again pleased with an unqualified audit opinion from PricewaterhouseCoopers LLP for FY 1998. This was a notable achievement due to the fact that four new financial statements were audited this year.

## **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 new framework was also utilized in developing ATF's FY 1999 and 2000 budget submissions. The new framework links strategic planning, budgeting and program planning into a single, integrated package, permitting the Bureau to improve formulation and execution of its programs. In FY 1999, ATF will utilize this cost structure in a new standardized time reporting format. The next phases are to refine definitions of performance measures, finalize a long-term costing methodology, and implement an operational cost accounting pilot. Within the financial management operation, key performance indicators were developed with the intention of establishing its first published annual performance plan for FY 1999. In FY 1998, a budget execution monthly financial report was developed which linked resources to Bureauwide performance measures.

## **INFRASTRUCTURE AND BUREAU RESTRUCTURING**

Established in FY 1996, the Strategic Management Team is the Bureau's executive-level steering committee, led by the Deputy Director/Chief Operating Officer and includes all the Assistant Directors and the Chief Counsel. The Team's missions are to establish ATF's vision and strategic goals; lead the

implementation of the strategic plan; establish high-level policy and priorities; and, make the Bureau's key strategic business decisions. As a result of the Information Technology Management Reform Act of 1996, the Strategic Management Team serves as the Bureau's investment review board to evaluate all new major investments and determine whether to retain funding for existing investments deployed in prior years.

Notable accomplishments for FY 1998 include the following:

- Moved the Bureau closer to its goal of achieving a budget mix that keeps personnel costs to less than 60% of the overall budget;
- Identified 14 organizational priorities that focused on infrastructure and operational needs. These priorities represent matters most critical to the achievement of ATF's vision and strategic goals and received major focus in FY 1998; and
- Reviewed the Bureau's organizational structure and core processes to ensure they meet the needs and requirements of its customers and enable ATF to achieve its vision and strategic goals. This review resulted in major restructuring of ATF's headquarters and field operations effective October 1, 1998.

## **MONTHLY ACCOUNTABILITY PLAN**

The Monthly Accountability Plan (MAP) continued in FY 1998 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.

**FINANCIAL SYSTEMS**

The Bureau’s systems modernization efforts are designed to improve the effectiveness and efficiency of financial data processing and reporting capabilities. Planned improvements to the Financial Management Information System (FMIS) address integrating all financial-related systems and establish direct links between program costs and performance measures.

**FINANCIAL MANAGEMENT INFORMATION SYSTEM**

Core FMIS is an off-the-shelf software package that provides general ledger control for administrative and revenue accounting. Core modules include budget execution and funds control, reimbursable project cost accounting, accounts payable and receivable, travel, document tracking, purchasing, disbursements and a reports management system. Maintenance and development tasks focus on providing more reliable, timely and meaningful information to management for decision-making.

The following were financial management system accomplishments in FY 1998:

- Implemented the new cost reporting structure in the core financial system;
- Identified changes to the payroll interface and time and attendance systems to record payroll costs by ATF’s major activities and programs. Time and attendance data will be directly coded to the new cost structure beginning in FY 1999;

- Completed the first phase of integrating a new procurement subsystem within FMIS;
- Refocused efforts to migrate from cuff systems to a standard, decentralized client server financial system. Under this new direction, all financial processes will be converted to a client server platform, and more functions will be moved into the program area. All financial processes Bureauwide will be standardized, processed in an electronic environment, and fully integrated with the core system;
- Supported the Bureau’s second organizational restructuring and identified action plans to support the FY 1999 field restructuring; and
- Developed an annual financial performance plan that integrated Bureau and Treasury-wide short term goals.

**FY 1999 Plans:**

- Complete Phase II of the cost accounting project;
- By the end of the fiscal year, prepare for the implementation of the first operational phase of ATF’s upgraded client-server financial system;
- Complete the second phase of the integrated procurement subsystem;
- Upgrade the Bureau’s property system and begin decentralizing the property system into the program areas of the Bureau;
- Begin the design and development of an automated budget formulation system to facilitate the development and costing of Bureau programs and initiatives, as well as automatically transforming those budgets into executable plans; and

- Implement the annual financial performance plan.

**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.

**FY 1998 accomplishments:**

- Developed the Year 2000 (Y2K) date compliant client-server based application to replace the Special Occupational Tax System currently on a mainframe platform; and
- Provided text-based information for public and industry access on approved certificates of label approval on ATF’s Internet Web site.

**FY 1999 plans:**

- Develop and deploy Y2K compliant client-server based applications to replace mainframe systems for Federal Excise Tax and Floor Stocks Tax; and
- Update the document imaging system for tax returns and other reports filed with the National Revenue Center in Cincinnati to a Y2K compliant version.

As the FMIS and ICS developments proceed, ATF will continue to reexamine and redesign business processes to ensure maximum return on the taxpayers' investment. The Bureau will strive to align all financial systems planning with the needs of the regulated industries and other key stakeholders.

## **FINANCIAL PERFORMANCE**

### **CASH MANAGEMENT**

The Prompt Payment Act requires the Federal Government to make vendor payments timely, with interest penalties for late payments and discounts for meeting approved accelerated payments. In FY 1998, the Bureau averaged a 3.9 percent annual delinquency rate. This represents an increase, which is two percent higher than in FY 1997 (1.9 percent). This increase is attributable to the Bureau's restructuring efforts and a major furniture and computer installation resulting in two month down time during the early months of the fiscal year. However, the Bureau made significant progress in the second half of the fiscal year in meeting the two percent Relative Frequency Rate set by the Department of the Treasury.

ATF continued its efforts to implement the Debt Collection Improvement Act of 1996, which mandates that all federal payments must be made by electronic funds transfer after January 1, 1999. Currently, 80 percent of ATF's vendors participate in the electronic payment system. This is a significant increase in vendor participation over FY 1997 which was 55 percent participation. The remaining 20 percent of vendors will be enrolled in FY 1999.

The Bureau continues to process travel vouchers within one week of receiving the voucher. The process time has been significantly reduced allowing travelers to actually receive payment in their account within four to eleven days of submitting a travel voucher. In FY 1998, ATF began

negotiations with the General Services Administration and a travel agency to provide an on-site Travel Management Center. The center will be shared with other agencies. The benefits of the center will allow Bureau headquarters travelers to go directly to the center for travel arrangements and pick up their airline tickets as opposed to making the arrangements via the telephone and picking up tickets at ATF's Relocation Office.

In FY 1998, ATF positioned itself to implement a new credit card program, by completely redoing the cardholder database, updating internal control policies and procedures, and fully implementing the Travel and Transportation Act of 1998. All small purchases of \$2,500 and below will be acquired through the credit card payment process.

The Bureau uses the automated FEDWIRE Deposit System for semi-monthly collection of alcohol and tobacco excise tax payments by taxpayers that pay more than \$5 million per calendar year. ATF also maintains a network of commercial post office boxes, or lockboxes, throughout the United States for collection of other excise taxes, firearms license and permit fees, and Special Occupational Taxes. The lockbox depository credits collections received by ATF directly to a clearing account for subsequent transfer to the United States Treasury, ensuring timely deposit of tax revenue to the Treasury General Fund.

### **ENTITY ASSETS**

The Bureau's intragovernmental entity assets for the periods ending September 30, 1998 and 1997 include fund balances with Treasury and receivables due to ATF resulting from reimbursable work performed for other Federal agencies. Other entity assets include receivables and advances due from employees and court ordered restitutions for violations of laws and regulations.

Entity assets also include cash (imprest funds) and property and equipment, net of depreciation and prepayments made to the Treasury Working Capital Fund.

### **NON-ENTITY ASSETS**

Non-entity assets primarily relate to the Bureau's revenue collection function for the Federal Government. Components of intragovernmental non-entity assets at September 30, 1998 and 1997 include fund balance with Treasury and accounts receivable due to ATF from the Treasury to refund certain excise tax and license fee claims. These assets consist of accounts receivable less amounts deemed uncollectible. Receivables include excise and Special Occupational Taxes, fees, fines, penalties and interest that have been assessed and remain unpaid at year-end.

### **EARNED REVENUE AND COSTS**

Earned revenue represents the Bureau's appropriations and financing sources used to fund its mission. Revenue includes reimbursement for services provided to others. The Bureau incurs costs in excess of revenue for each fiscal year due to unfunded contingency and actuarial liabilities, which are expensed in the year they are recognized as liabilities. Costs reflect program and operating expenses, depreciation, amortization, and changes in Federal Employees Compensation Act actuarial liabilities. Costs also include bad debts, Prompt Pay Act interest paid, and losses on the disposition of assets.

### **LIABILITIES**

Intragovernmental liabilities are incurred during the performance of the Bureau's mission. Liabilities funded by appropriations include accounts payable to vendors, employees, and other government agencies, as well as accrued payroll expenses as of September 30, 1998 and 1997. Unfunded liabilities that will be paid through future appropriations

<p>include employee claims for leave and workers' compensation benefits as well as future capital lease and contingent liability payments.</p> <p>Other liabilities include those associated with the Bureau's custodial function for revenue collection. Amounts include accrued accounts payable to refund taxpayers for claims approved by ATF but not disbursed as of September 30, 1998 and 1997, as well as amounts held in escrow for cash bonds and offers-in-compromise. Intragovernmental liabilities also include taxes that will be transferred to the Treasury when collected.</p> <p>REVENUE MANAGEMENT</p> <p>ATF ensures the collection of Federal Excise Tax and protection of the revenue through a system of laws, regulations, tax returns, permits, bonds, and disbursement (refund) functions in accordance with the Internal Revenue Code of 1986. The Bureau collects, records and accounts for a variety of taxes and registration and license fees from the alcohol, tobacco, firearms, ammunition and explosives industries. None of <i>the non-entity revenue collected by ATF is used in any Bureau operations. All funds are transferred to the Treasury or other Federal agencies for further distribution in accordance with various laws and regulations.</i> In addition to collecting revenue, ATF makes various types of disbursements for taxes and fees paid to the Federal Government. The detailed amounts collected in FY 1998 can be found under Note 13-Non-Exchange Revenue, page 64.</p> <p>FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT HIGHLIGHTS</p> <p>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</p>	<p>provide reasonable assurance that Government resources are protected against fraud, waste, abuse, mismanagement, or misappropriation. The Executive Staff's responsibilities include ensuring those 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, comprised of the deputies of each major Bureau component, 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 internal control environment.</p> <p>1998 FMFIA STATUS</p> <p>ATF's FY 1998 annual statement of assurance indicated that the Bureau could reasonably assure that:</p> <ol style="list-style-type: none"> <li>(1) obligations and costs are in compliance with applicable laws and assets are safeguarded;</li> <li>(2) operational revenues and expenditures are properly recorded and accounted for; and</li> </ol>	<ol style="list-style-type: none"> <li>(3) accounting systems conform to the Comptroller General's accounting principles and standards.</li> </ol> <p>The reasonable assurance was based on the Bureau's continued effort to improve its systems of management controls and aggressive steps to improve automated systems. No FMFIA deficiencies were identified during FY 1998.</p> <p>POLICIES AND PROCEDURES</p> <p>In FY 1998, the Bureau actively pursued corrective actions to address the repeat conditions originally discovered by the OIG in their FY 1996 audit of the Bureau's financial statements and reported again in FY 1997 by Price Waterhouse LLP:</p> <p><b>Consider the Rotation of Inspectors in the Inspection Targeting Program</b></p> <p><i>Status and Accomplishments: Completed.</i> A brief was prepared to require periodic rotation of inspectors conducting revenue inspections pursuant to the Inspection Targeting Program or other recurring assignments.</p>
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**Enhance Controls Over the Information Security Management Function**

*Status and Accomplishments: In process.* ATF has restructured its Information Services security functions into policy and operational components. As a result of this restructure, the Operations Branch was given the task of focusing on the administration of shared processing platforms. A Security Administration function was created and is currently staffed by two full time equivalents (FTE) and two contractor positions. In addition, the Information Security policy office has increased staffing by one FTE and three contractor positions to focus on continued enhancements in this area. A total of eight positions now focus on enhancing controls over information security for the Bureau.

**Continue to Improve Effectiveness of Access Control Software**

*Status and Accomplishments: In process.* Due to the sensitive nature of this specific finding, ATF is unable to publicly address the corrective action taken.

**Evaluate Telecommunications Security Risk**

*Status and Accomplishments: In Process.* Due to the sensitive nature of this specific finding, ATF is unable to publicly address the corrective action taken.

**Implement Standard Program Change Control Processes (formerly Implement Adequate Separation of Duties)**

*Status and Accomplishments: In process.* ATF has drafted charters for the Change Control Board and the Engineering Control Group; and plans are to implement the process on a six month trial basis.

**MANAGEMENT RESPONSIBILITIES**

Bureau management is responsible for the fair presentation of information contained in the principal financial statements, in conformity with the accounting hierarchy described in Note 1, Summary of Significant Accounting Policies, which constitutes an “other comprehensive basis of accounting.” Management is also responsible for the fair presentation of ATF’s performance

measures in accordance with Office of Management and Budget requirements. The quality of the Bureau’s internal control structure rests with management, as well as the responsibility for identification and compliance with pertinent laws and regulations.

**LIMITATIONS OF 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.



# AUDITOR'S REPORT ON FINANCIAL STATEMENTS



PricewaterhouseCoopers LLP  
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Arlington VA 22209-3195  
Telephone: (703) 741 1000  
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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, 1998 and 1997, and the related statements of net cost, changes in net position, budgetary resources, financing, and custodial activity for the period ended September 30, 1998. 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.

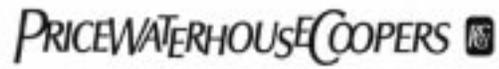
We conducted our audits in accordance with generally accepted auditing standards; *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 98-08, *Audits of Federal Financial Statements*. Those standards require that 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.

As described in Note 1, these financial statements were prepared on the basis of accounting used to conform with OMB Bulletin No. 97-01, *Form and Content of Agency Financial Statements*, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements audited by us present fairly, in all material respects, the financial position of ATF at September 30, 1998 and 1997, and its net cost of operations, changes in net position, budgetary resources, financing, and custodial activity for the period ended September 30, 1998, in conformity with the basis of accounting described in Note 1 to the financial statements.

As discussed in Note 1, ATF, effective for the fiscal year ended September 30, 1998 adopted OMB Bulletin No. 97-01, *Form and Content of Agency Financial Statements*, and Statements of Federal Financial Accounting Standards incorporated by reference within OMB Bulletin No. 97-01.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The "Management's Overview" (Overview) section is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we express no opinion on it.



Report of Independent Accountants  
Page 2

In accordance with *Government Auditing Standards*, we have also issued a report dated February 2, 1999 on our consideration of ATF's internal control and a report dated February 2, 1999 on its compliance with laws and regulations.

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

February 2, 1999  
Arlington, Virginia



PricewaterhouseCoopers LLP  
 1616 North First Street  
 Arlington VA 22209-3195  
 Telephone: (703) 741 3000  
 Facsimile: (703) 741 3616

#### 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 Principal Statements (hereinafter referred to as "financial statements") of the Bureau of Alcohol, Tobacco and Firearms (ATF) as of and for the year ended September 30, 1998, and have issued our report thereon dated February 2, 1999.

We conducted our audit in accordance with generally accepted auditing standards; *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 98-08, *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.

The management of ATF is responsible for establishing and maintaining accounting systems and internal control. In fulfilling this responsibility, estimates and judgments are required to assess the expected benefits and related costs of internal control policies and procedures. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that: (1) transactions are properly recorded and accounted for to permit the preparation of reliable financial statements and to maintain accountability over assets; (2) funds, property, and other assets are safeguarded from loss from unauthorized use or disposition; (3) transactions, including those related to obligations and costs, are executed in compliance with laws and regulations that could have a direct and material effect on the financial statements and other relevant laws and regulations; and (4) data that support reported performance measures are properly recorded and accounted for to permit preparation of reliable and complete performance information. 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.

In planning and performing our audit of the financial statements of ATF for the year ended September 30, 1998, we obtained an understanding of the design of significant internal control policies and procedures and whether they have been placed in operation, tested certain controls, and assessed control risk in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide an opinion on internal control. Accordingly, we do not express such an opinion.



Report on Internal Control  
Page 2

With respect to internal control relevant to data that support reported performance measures, we obtained an understanding of relevant internal control policies and procedures designed to achieve the above noted control objectives, and assessed risk related to management's assertions that the data is complete and relates to events that have occurred. Our procedures were not designed to provide assurance on internal control over reported performance measures, and, accordingly, we do not provide an opinion on such controls.

We noted certain matters in internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants and OMB Bulletin No. 98-08, *Audit Requirements for Federal Financial Statements*, as amended. 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 meet the internal control objectives described above.

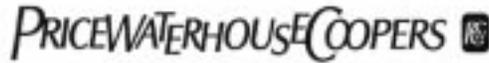
During 1998, ATF made some progress in each of the four areas noted in last year's internal control report. However, all four areas continue to have weaknesses requiring further corrective actions, as noted in the following sections.

#### **ATF Can Further Strengthen Controls to Protect Its Information**

As reported under the headings, *Continue to Improve Effectiveness of Access Control Software and Evaluate Telecommunications Security Risks*, last year's audit identified that ATF had a number of weaknesses in the access control software and related access control areas. Although ATF has made progress in addressing these issues, weaknesses continue to exist. 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.

#### **ATF Needs to Accelerate Efforts to Implement Its Program Change Control Process**

Last year's audit disclosed that ATF did not have an adequate control framework for application software changes. ATF has made progress in this area with the development of a set of policies and procedures for a bureau-wide change control process. These policies and procedures provide details to ensure that all program changes are consistently requested, authorized and accepted. However, these procedures are in draft form and have not yet been formally approved or disseminated by Information Systems Department (ISD) management. Until the new change control process is implemented and ISD personnel trained to use them, ATF will continue to be exposed to the risk of erroneous and unauthorized changes to its application systems. We recommend that ATF immediately implement these draft procedures on an interim basis until the final version is formally issued and promptly train ISD personnel to use the new procedures.



Report on Internal Control  
Page 3

#### **ATF Should Improve Controls Over Segregation of Duties**

Segregation of duties between system security and system administration personnel was a problem noted in last year's report under the heading, *Enhance Controls Over the Information Security Management Function*. Action was taken by ATF to respond to the specific weaknesses noted last year. For example, a position was created for a security administrator and an employee was assigned to assist with systems administrator duties. However, a systems programmer working for an ATF contractor continues to have primary responsibility for incompatible duties such as maintaining the security software, processing and approving system changes, and performing programmer duties. Furthermore, the systems programmer's work has not been monitored or reviewed by ATF personnel. This condition continued to exist for the following reasons:

- the employee assigned to assist with systems administration duties retired,
- job responsibilities for systems security and systems administration personnel were not adequately defined and assigned, and
- other ISD personnel were not adequately trained to perform these duties.

Without proper segregation of duties, the potential for unauthorized changes and other improper system related activities is greatly increased. We recommend that ATF:

- replace the employee assigned to assist with systems administration duties but who subsequently retired,
- define and assign all ISD job responsibilities (including systems programmer monitoring) in a manner that maximizes segregation of duties,
- adequately train selected ISD personnel to perform the systems and security administrator job duties, and
- establish a process for monitoring and reviewing the activity of the contractor's systems programmer.

In addition, this year we noted that administration and user duties were not properly segregated for applications such as FET, FMIS, and Property Plus. Specifically, in addition to their assigned administration duties, security and systems administrators approved transactions, processed transactions, and reviewed their own corrections. This condition occurred because policies and procedures were not established to adequately segregate incompatible duties. Proper segregation of duties helps to prevent the unauthorized processing of transactions and/or corrections. We recommend that ATF establish procedures to segregate users' transaction processing responsibilities, including the approval, processing, review, and correction of transactions, from systems security/administration tasks.



Report on Internal Control  
Page 4

**Status of Prior Year's Reportable Conditions**

We followed up on the status of the five fiscal year 1997 reportable conditions identified in our report dated February 9, 1998. That report included all four of the reportable conditions described above. We also found that ATF management's corrective actions or the existence of other mitigating controls or other factors resolved the reportable condition described under the heading *Implement Policies to Rotate Inspectors*. The use of inspectors to review taxpayer operations is a key control for ensuring that the proper amount of excise tax is paid to ATF. In the prior year, it was noted that inspectors may be assigned on a long-term basis to perform reviews of the taxpayer, which could be construed as an impairment of the inspector's objectivity or independence. In response to this matter, ATF has drafted and adopted policies that set forth procedures for establishing an inspector rotation policy.

\* \* \*

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 none of the fiscal year 1998 reportable conditions described above is 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.

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 the Congress, and is not intended to be and should not be used by anyone other than these specified parties.

February 2, 1999  
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 Principal Statements (hereinafter referred to as "financial statements") of the Bureau of Alcohol, Tobacco and Firearms (ATF) as of and for the year ended September 30, 1998, and have issued our report thereon, dated February 2, 1999.

We conducted our audit in accordance with generally accepted auditing standards; *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 98-08, *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.

The management of ATF is responsible for complying with laws and regulations applicable to ATF. As part of obtaining reasonable assurance about whether ATF's financial statements are free of material misstatement, we performed tests of its 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. 98-08, *Audit Requirements for Federal Financial Statements*, including the requirements referred to in the Federal Financial Management Improvement Act (FFMIA) of 1996.

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards*.

Under FFMIA, we are required to report whether the agency's financial management systems substantially comply with the Federal financial management systems requirements, applicable accounting standards, and the United States Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance using the implementation guidance for FFMIA included in Appendix D of OMB Bulletin No. 98-08.

The results of our tests disclosed no instances where ATF's financial management systems did not substantially comply with the three requirements discussed in the preceding paragraph.



Report on Compliance with Laws and Regulations  
Page 2

Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit and, accordingly, we do not express an opinion. 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 the Congress, and is not intended to be and should not be used by anyone other than these specified parties.

*PricewaterhouseCoopers LLP*

February 2, 1999  
Arlington, Virginia

# FINANCIAL STATEMENTS

**DEPARTMENT OF THE TREASURY  
BUREAU OF ALCOHOL, TOBACCO AND FIREARMS  
BALANCE SHEET  
As of September 30, 1998 and 1997**

		1998	1997
<i>(In Thousands)</i>			
<b>ASSETS</b>			
<b>Entity Assets</b>			
<b>Intragovernmental Assets</b>			
Fund Balance with Treasury	(Note 2)	\$198,310	\$135,118
Accounts Receivable	(Note 3)	12,276	9,054
<b>Total Intragovernmental Assets</b>		<u>210,586</u>	<u>144,172</u>
Cash	(Note 2)	2,239	2,237
Property and Equipment, Net	(Note 4)	81,441	46,745
Other Assets	(Note 5)	9,802	5,884
<b>Total Entity Assets</b>		<u>304,068</u>	<u>199,038</u>
<b>Non-Entity Assets</b>			
<b>Intragovernmental Assets</b>			
Fund Balance with Treasury	(Note 2)	2,335	112
Accounts Receivable	(Note 3)	13,499	10,017
<b>Total Intragovernmental Assets</b>		<u>15,834</u>	<u>10,129</u>
Accounts Receivable, Net	(Note 3)	2,466	2,909
<b>Total Non-Entity Assets</b>		<u>18,300</u>	<u>13,038</u>
<b>TOTAL ASSETS</b>		<u><u>\$322,368</u></u>	<u><u>\$212,076</u></u>

The accompanying notes are an integral part of these statements.

**DEPARTMENT OF THE TREASURY**  
**BUREAU OF ALCOHOL, TOBACCO AND FIREARMS**  
**BALANCE SHEET**  
**As of September 30, 1998 and 1997**

**1998**                      **1997**

*(In Thousands)*

**LIABILITIES****Liabilities Covered by Budgetary Resources****Intragovernmental Liabilities:**

Accounts Payable	\$ 4,053	\$ 3,108
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Payable to Treasury	2,466	4,773
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<b>Total Intragovernmental Liabilities</b>	<u>6,519</u>	<u>7,881</u>
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Accounts Payable	41,091	30,630
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Accrued Funded Payroll Benefits	16,654	14,211
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Other Liabilities	(Note 6) 4,061	<u>3,214</u>
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<b>Total Liabilities Covered by Budgetary Resources</b>	<u>68,325</u>	<u>55,936</u>
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**Liabilities Not Covered by Budgetary Resources****Intragovernmental Liabilities:**

Accrued FECA Liability Payable	15,954	16,404
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<b>Total Intragovernmental Liabilities</b>	<u>15,954</u>	<u>16,404</u>
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Accrued Leave	25,586	24,318
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FECA Actuarial Liability	79,948	89,107
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Lease Liability	(Note 7) 19,667	796
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Contingent Liabilities	(Note 8) 967	<u>661</u>
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<b>Total Liabilities Not Covered by Budgetary Resources</b>	<u>142,122</u>	<u>131,286</u>
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<b>TOTAL LIABILITIES</b>	<b>\$210,447</b>	<b>\$187,222</b>
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**NET POSITION** (Note 9)

Unexpended Appropriations	\$163,180	\$103,710
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Cumulative Results of Operations	<u>(51,259)</u>	<u>(78,856)</u>
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<b>TOTAL NET POSITION</b>	<b>111,921</b>	<b>24,854</b>
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<b>TOTAL LIABILITIES AND NET POSITION</b>	<u><b>\$322,368</b></u>	<u><b>\$212,076</b></u>
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The accompanying notes are an integral part of these statements.

**DEPARTMENT OF THE TREASURY  
BUREAU OF ALCOHOL, TOBACCO AND FIREARMS  
STATEMENT OF NET COST  
For the Year Ended September 30, 1998**

	<b>REDUCE VIOLENT CRIME</b>	<b>PROTECT THE PUBLIC</b>	<b>COLLECT THE REVENUE</b>	<b>TOTAL</b>
<i>(In Thousands)</i>				
<b>Program Costs</b>				
<b>Intragovernmental</b>	\$ 32,249	\$ 5,232	\$ 4,746	\$ 42,227
<b>Public</b>	310,098	50,309	45,640	406,047
<b>Total Program Costs</b>	342,347	55,541	50,386	448,274
<b>Less: Earned Revenues</b> (Note 10)	(27,042)	-	(290)	(27,332)
<b>Net Program Costs</b>	<u>\$315,305</u>	<u>\$55,541</u>	<u>\$50,096</u>	\$420,942
<b>Costs Not Assigned to Programs</b>				71,562
<b>Less: Earned Revenues Not Attributable to Programs</b>				-
<b>Deferred Maintenance</b> (Note 1)				
<b>NET COST OF OPERATIONS</b>				<u>\$492,504</u>

The accompanying notes are an integral part of these statements.

**DEPARTMENT OF THE TREASURY  
BUREAU OF ALCOHOL, TOBACCO AND FIREARMS  
STATEMENT OF CHANGES IN NET POSITION  
For the Year Ended September 30, 1998**

		<i>(In Thousands)</i>
<b>NET COST OF OPERATIONS</b>		\$(492,504)
<b>Financing Sources</b>		
Appropriations Used		457,060
Taxes (and Other Non-Exchange Revenue)		-
Imputed Financing	(Note 11)	<u>25,452</u>
<b>Total Financing Sources</b>		<u>482,512</u>
<b>Net Results of Operations</b>		(9,992)
<b>Prior Period Adjustments</b>		<u>-</u>
<b>Net Change in Cumulative Results of Operations</b>		(9,992)
<b>Increase (Decrease) in Unexpended Appropriations</b>		<u>97,059</u>
<b>Change in Net Position</b>		87,067
<b>Net Position - Beginning of Period</b>		<u>24,854</u>
<b>NET POSITION - END OF PERIOD</b>		<u><u>\$ 111,921</u></u>

The accompanying notes are an integral part of these statements.

**DEPARTMENT OF THE TREASURY**  
**BUREAU OF ALCOHOL, TOBACCO AND FIREARMS**  
**STATEMENT OF BUDGETARY RESOURCES**  
**For the Year Ended September 30, 1998**

<b>BUDGETARY RESOURCES</b>	(Note 12)	<i>(In Thousands)</i>
Budget Authority		\$562,022
Unobligated Balance - Beginning of Period		42,696
Spending Authority from Offsetting Collections		35,529
Adjustments		<u>28,193</u>
<b>TOTAL BUDGETARY RESOURCES</b>		<u>\$668,440</u>
 <b>STATUS OF BUDGETARY RESOURCES</b>		
Obligations Incurred		\$640,868
Unobligated Balances - Available		18,122
Unobligated Balances - Not Available		<u>9,450</u>
<b>TOTAL, STATUS OF BUDGETARY RESOURCES</b>		<u>\$668,440</u>
 <b>OUTLAYS</b>		
Obligations Incurred		\$640,868
Less: Spending Authority From Offsetting Collections and Adjustments		(66,656)
Obligated Balance, Net - Beginning of the Period		89,153
Obligated Balance Transferred, Net		-
Less: Obligated Balance, Net - End of the Period		<u>(168,421)</u>
<b>TOTAL OUTLAYS</b>		<u>\$494,944</u>

The accompanying notes are an integral part of these statements.

**DEPARTMENT OF THE TREASURY**  
**BUREAU OF ALCOHOL, TOBACCO AND FIREARMS**  
**STATEMENT OF FINANCING**  
**For the Year Ended September 30, 1998**

	<i>(In Thousands)</i>
<b>OBLIGATIONS AND NONBUDGETARY RESOURCES</b>	
Obligations Incurred	\$640,868
Less: Spending Authority From Offsetting	
Collections and Adjustments	(66,656)
Financing Imputed for Cost Subsidies	25,452
Revenue Not in the Budget	<u>1,330</u>
<b>Total Obligations as Adjusted and Nonbudgetary Resources</b>	<b>\$600,994</b>
<b>RESOURCES THAT DO NOT FUND NET COST OF OPERATIONS</b>	
Change in Amount of Goods, Services and Benefits	
Ordered but Not Yet Provided	(75,674)
Costs Capitalized on the Balance Sheet	<u>(62,143)</u>
<b>Total Resources That Do Not Fund Net Cost of Operations</b>	<b>(137,817)</b>
<b>COSTS THAT DO NOT REQUIRE RESOURCES</b>	
Depreciation and Amortization	18,008
Loss on Disposition of Assets	427
Other	<u>56</u>
<b>Total Costs That Do Not Require Resources</b>	<b>18,491</b>
<b>FINANCING SOURCES YET TO BE PROVIDED</b>	<u>10,836</u>
<b>NET COST OF OPERATIONS</b>	<u><u>\$492,504</u></u>

The accompanying notes are an integral part of these statements.

**DEPARTMENT OF THE TREASURY**  
**BUREAU OF ALCOHOL, TOBACCO AND FIREARMS**  
**STATEMENT OF CUSTODIAL ACTIVITY**  
**For the Year Ended September 30, 1998**

*(In Thousands)*

**REVENUE ACTIVITY****Sources of Cash Collection**

(Note 13)

Interest	\$ 86
Penalties and Fines	81
Tax Revenues	12,425,540
Other Custodial Revenue	<u>243</u>
<b>Total Cash Collections</b>	<b>12,425,950</b>

Accrual Adjustment

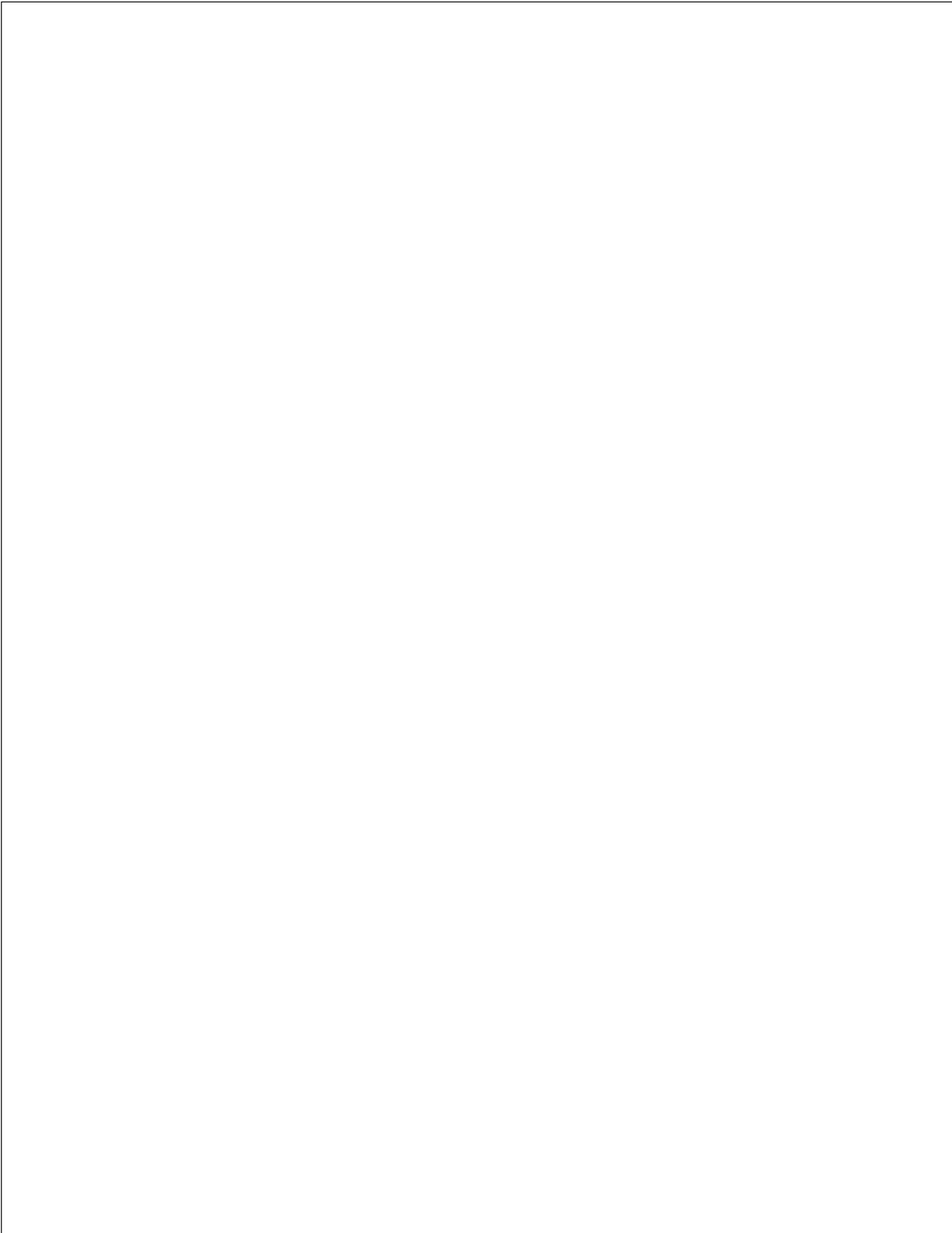
(9,584)

**Total Custodial Revenue**12,416,366**DISPOSITION OF COLLECTIONS**

Transferred to Others	12,175,771
(Increase) Decrease in Amounts to be Transferred	(11,242)
Refunds and Other Payments	(Note 13) 251,837
Retained by the Entity	<u>-</u>
<b>Total Disposition of Collections</b>	<b>12,416,366</b>

**NET CUSTODIAL REVENUE ACTIVITY**\$ -

The accompanying notes are an integral part of these statements.



# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 1

### Summary of Significant Accounting Policies

#### 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 the Bureau of Alcohol, Tobacco and Firearms (ATF or the Bureau). The financial statements have been prepared from the books and records of ATF in accordance with the form and content for financial statements specified by Office of Management and Budget (OMB) Bulletin No. 97-01, and ATF's accounting policies which are summarized in this note. These statements are therefore 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.

#### REPORTING ENTITY

ATF, 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.

#### BUDGETS AND BUDGETARY ACCOUNTING

Congressional appropriations provide financing sources on an annual 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:

- 20-8-1000 - *Salaries and Expenses Appropriation*
- 20-8-1000 - *Salaries and Expenses Reimbursable Authority*
- 20-X-1000 - *No-year Appropriation*
- 20-7/8-1000 - *Prior-year Appropriations*
- 20-8-1000 - *Appropriation Transfers*
- 20-X-1003 - *Laboratory Facilities*
- 20-X-8526 and 20-X-8528 - *Violent Crime Trust Funds*

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.

#### BASIS OF ACCOUNTING

The Bureau transactions in the financial statements are accounted for in accordance with the following hierarchy which constitutes an "other comprehensive basis of accounting":

- Federal Accounting Standards Advisory Board (FASAB) Statements of Federal Financial Accounting Standards (SFFAS) agreed to by the Director of OMB, the Comptroller General, and the Secretary of the Treasury and published by OMB and the General Accounting Office.

- Interpretations related to the SFFASs issued by OMB in accordance with the procedures outlined in OMB Circular A-134, “Financial Accounting Principles and Standards.”
- Requirements contained in OMB’s Form and Content Bulletin (97-01), as amended on November 20, 1998, in effect for the period covered by the financial statements.
- Accounting principles published by other authoritative standard-setting bodies and other authoritative sources (a) in the absence of other guidance in the first three parts of this hierarchy, and (b) if the use of such accounting principles improves the meaningfulness of the financial statements.

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.

## 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 that are provided 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 ATF’s role as a law enforcement entity supporting law enforcement initiatives. For example, ATF is granted authority to spend money which will be reimbursed by the Treasury’s Executive Office for Asset Forfeiture (EOAF) if used for specific law enforcement related activities and/or projects. Reimbursement can also occur for seizure related expenses, the Youth Crime Gun Interdiction Initiative, the purchase of vehicles, and other initiatives approved by EOAF or Congress. Similarly, ATF is funded on a reimbursable basis for activity related to drug enforcement activity through the Inter-agency Crime and Drug Enforcement (ICDE) program formerly managed by the Justice Department. ATF does provide reimbursable services to other federal agencies but reimbursement is limited to agreed-upon charges which, for the most part, exclude personnel costs.

### 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 reported on the modified cash basis of accounting and is recognized when taxes are remitted or assessed. Refunds are also reported on the modified cash basis of accounting. Liabilities for approved but unpaid refunds of tax payments are accrued at year end.

As an agent of the Federal Government, 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 their mission. ATF disburses refunds to taxpayers and license applicants as well as to the Governments of Puerto Rico and the Virgin Islands to cover over (rebate) excise taxes collected for rum produced in these territories to support economic revitalization. The amount covered over (rebated) to these governments is based on the consolidation of figures obtained from the U.S. Customs Service and Census Bureau, and domestic distilleries. 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 through assessments of taxes and the imposition of 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. Appropriations are recognized as a financing source at the time the related program or administrative expense is incurred. 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 both annual and no-year appropriations that may be used, within statutory limits, for operating and capital expenditures (primarily equipment, furniture and furnishings).

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."

#### ASSETS

Entity intragovernmental assets include the fund balance with Treasury and amounts due from other Federal agencies under contractual agreements or other arrangements for services or activities performed by ATF. Entity other assets include prepayments, accounts receivable and advances due from employees or vendors.

Non-entity intragovernmental assets also include the fund balance with Treasury as well as 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 are considered financing sources (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.

#### 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. ATF owns no land or stewardship property, plant, and equipment and has no deferred maintenance or cleanup costs.

Equipment purchased or donated with a cost greater than or equal to \$25,000 per unit and a useful life of two years or more is capitalized at cost 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.

## 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 on excise tax, fee receivables, 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.

## 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 EMPLOYEE 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. 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 as required by Interpretation of Federal Financial Accounting Standards No. 2.

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 percent (7.5 percent for those personnel classified as law enforcement agents) for a total contribution rate of 15.51 percent. 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 .8 percent of their 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 1998. 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.

ATF recognized the full cost of providing future pension and other retirement benefits (ORB) for current employees as required by SFAS 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 assets and 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.

#### COMPARATIVE DATA

Comparative data are presented for the Balance Sheet and only where the presentation was made in the FY 1997 financial statements. With the implementation of OMB Bulletin 97-01 comparative data are not required until FY 2000.

**NOTE 2**

**Fund Balance with Treasury & Cash**

Fund balance with Treasury and cash as of September 30, 1998 and 1997 consisted of the following:

<b>FY 1998</b> <i>(In Thousands)</i>		<u>Unobligated</u>		
<b>Entity:</b>	<b>Obligated</b>	<b>Available</b>	<b>Restricted</b>	<b>Total</b>
Trust Funds	\$ 20,443	\$ 8,670	\$ -	\$ 29,113
Appropriated Funds	145,710	18,930	2,935	167,575
Other Fund Types	-	1,622	-	1,622
Fund Balance	<u>\$ 166,153</u>	<u>\$ 29,222</u>	<u>\$ 2,935</u>	<u>\$ 198,310</u>
Cash		\$ 2,239	\$ -	\$ 2,239
<b>Non-Entity:</b>				
Fund Balance			<u>\$ 2,335</u>	<u>\$ 2,335</u>

<b>FY 1997</b> <i>(In Thousands)</i>		<u>Unobligated</u>		
<b>Entity:</b>	<b>Obligated</b>	<b>Available</b>	<b>Restricted</b>	<b>Total</b>
Trust Funds	\$ 19,350	\$ 9,354	\$ -	\$ 28,704
Appropriated Funds	72,056	29,229	3,912	105,197
Other Fund Types	-	1,217	-	1,217
Fund Balance	<u>\$ 91,406</u>	<u>\$ 39,800</u>	<u>\$ 3,912</u>	<u>\$ 135,118</u>
Cash		\$ 2,237	\$ -	\$ 2,237
<b>Non-Entity:</b>				
Fund Balance			<u>\$ 112</u>	<u>\$ 112</u>

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

Cash available for ATF use represents petty cash 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 fund balance 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 fund balance 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.

**NOTE 3****Accounts Receivable**

Accounts receivable as of September 30, 1998 and 1997 were as follows:

<i>(In Thousands)</i>	<i>FY 1998</i>		<i>FY 1997</i>	
	<i>Entity</i>	<i>Non-Entity</i>	<i>Entity</i>	<i>Non-Entity</i>
Intragovernmental Receivables	\$ 12,276	\$ 13,499	\$ 9,054	\$ 10,017
Receivables:				
Taxes/Fees		\$ 15,557		\$ 14,274
Interest		3,723		2,987
Penalties		1,900		1,755
Cash		206		9
		<u>21,386</u>		<u>19,025</u>
Less:				
Allowance for Uncollectible Accounts		<u>(18,920)</u>		<u>(16,116)</u>
Receivables, Net		<u>\$ 2,466</u>		<u>\$ 2,909</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 and historical collections and the application of estimated collectible amounts to categories of receivable balances at year end. In FY 1998 and FY 1997, approximately \$10.1 and \$6.9 million of the allowance, respectively, was based on cases that ATF had entered into negotiations for payment through offers-in-compromise.

**NOTE 4**

**Property and Equipment**

Property and equipment consisted of the following as of September 30, 1998 and 1997:

<b>FY 1998</b> <i>(In Thousands)</i>	<b>Service Life (Years)</b>	<b>Acquisition Value</b>	<b>Accumulated Depreciation</b>	<b>Net Book Value</b>
ADP Software	3	\$ 2,725	\$ 651	\$ 2,074
Equipment	2-10	109,643	55,695	53,948
Leasehold Improvements		6,926	3,466	3,460
Assets Under Capital Lease		25,563	4,177	21,386
Construction in Progress		573	-	573
<b>Total Property &amp; Equipment</b>		<b>\$145,430</b>	<b>\$63,989</b>	<b>\$81,441</b>

<b>FY 1997</b> <i>(In Thousands)</i>	<b>Service Life (Years)</b>	<b>Acquisition Value</b>	<b>Accumulated Depreciation</b>	<b>Net Book Value</b>
ADP Software	3	\$ 428	\$ 191	\$ 237
Equipment	2-10	96,803	54,306	42,497
Leasehold Improvements		5,214	2,633	2,581
Assets Under Capital Lease		1,357	352	1,005
Construction in Progress		425	-	425
<b>Total Property &amp; Equipment</b>		<b>\$104,227</b>	<b>\$57,482</b>	<b>\$46,745</b>

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. Construction in progress represents initial costs of developing Bureau requirements for the construction of a new headquarters building. There are no restrictions on the use or convertibility of property and equipment.

**NOTE 5****Other Assets**

Other assets consisted of the following as of September 30, 1998 and 1997:

<i>(In Thousands)</i>	<b>FY 1998</b>	<b>FY 1997</b>
	<u><i>Entity</i></u>	<u><i>Entity</i></u>
Prepayments	\$ 9,440	\$ 5,685
Advances	265	106
Due From Employees	97	93
Total Other Assets	<u>\$ 9,802</u>	<u>\$ 5,884</u>

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.

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.

**NOTE 6****Other Liabilities**

Other Liabilities include deposit fund amounts held in escrow and estimated losses for claims or other contingencies.

**NOTE 7**

**Leases**

**CAPITAL LEASES**

For Assets Under Capital Lease, the acquisition value of machinery and equipment, which represents computer hardware, laboratory and other office equipment, is \$20,818. The remaining \$4,745 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, 1998 and 1997 were as follows:

<i>(In Thousands)</i>	<u><i>FY 1998</i></u>	<u><i>FY 1997</i></u>
<b>Fiscal Year</b>		
1998	\$ -	\$ 473
1999	11,429	417
2000	7,622	15
2001	1,660	8
2002	14	8
2003	<u>4</u>	<u>-</u>
Future Lease Payments	\$ 20,729	\$ 921
Less: Imputed Interest	(1,062)	(125)
<b>Net Capital Lease Liability</b>	<u><u>\$ 19,667</u></u>	<u><u>\$ 796</u></u>
Liabilities not covered by budgetary resources	<u><u>\$ 19,667</u></u>	<u><u>\$ 796</u></u>

In FY 1998, 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 present value of the future minimum lease payments. Imputed interest rates range from 3.4 to 9.8 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 funded resources.

**OPERATING LEASES**

The Bureau leases various copiers, fax machines and vehicles under agreements accounted for as operating leases. Future commitments for operating leases as of September 30, 1998 and 1997 were as follows:

<i>(In Thousands)</i>	<u><b>FY 1998</b></u>	<u><b>FY 1997</b></u>
<b>Fiscal Year</b>		
1998	\$ -	\$ 261
1999	273	179
2000	160	49
2001	62	-
2002	28	-
2003	<u>2</u>	<u>-</u>
<b>Total Future Lease Payments</b>	<u><u>\$ 525</u></u>	<u><u>\$ 489</u></u>

**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 contains 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. 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 and legal counsel, the ultimate resolution of these proceedings, actions and claims will not materially affect the financial position or results of operation of ATF. At September 30, 1998 and 1997, ATF legal counsel was processing approximately 183 and 247, respectively, of these actions against the Bureau. ATF identified and accrued, at September 30, 1998 and 1997, \$967,000 and \$661,000, respectively, as probable liability on the Balance Sheet. The September 30, 1998 probable liability results from the following types of claims pending resolution:

- Administrative tort and employee claims in process against ATF for which counsel has identified \$352,000 as probable liability, of that \$12,000 would affect ATF appropriations and \$340,000 would be referred to the Financial Management Services (FMS) for payment from the Judgment Fund. In FY 1997, counsel identified \$124,000 as probable liability, of that, \$15,000 was identified as probable liability affecting ATF appropriations. When any administrative tort claim of \$2,500 or greater is allowed, it is referred to the FMS for payment from the Judgment Fund;
- Attorney fee applications/petitions for which counsel has identified \$300,000 as probable liability that would affect ATF appropriations. Counsel identified \$400,000 as probable liability for those claims in FY 1997;
- Lawsuits filed under the Federal Tort Claims Act for which counsel identified \$315,000 as probable liability that would be referred to the FMS for payment under the Judgment Fund. No liability for those cases was accrued in FY 1997;
- In FY 1997, counsel identified \$137,000 as probable liability relating to Personnel and EEO cases. No liability for those cases was accrued in FY 1998.

## NOTES TO THE FINANCIAL STATEMENTS

The change in contingent liabilities from September 30, 1997 resulted from the activity detailed above and the resolution of the following claims in FY 1998:

- Administrative tort and employee claims settled;
- Administrative employee claims for retirement and other benefits settled on preferential terms; and,
- Settlement of lawsuits filed under the Federal Tort Claims Act.

ATF counsel identified at September 30, 1998, \$21.1 million as reasonably possible liability resulting from the following types of claims pending resolution:

- Administrative tort and employee claims in process against ATF for which counsel has identified \$94,500 as reasonably possible that would be referred to the FMS for payment from the Judgment Fund;
- Attorney fee applications/petitions of which counsel identified \$283,000 as reasonably possible liability: \$275,000 would affect ATF appropriations and \$8,000 would be referred to the FMS for payment from the Judgment Fund;
- Personnel and EEO cases for which counsel has identified \$20.7 million as reasonably possible liability that would be referred to the FMS for payment from the Judgment Fund; and,
- Lawsuits filed under the Federal Tort Claims Act which counsel identified \$31,000 as reasonably possible liability that would be referred to the FMS for payment from the Judgment Fund.

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 \$3.5 million and \$208,000 of obligations relating to canceled appropriations canceled at the end of FY 1998 and FY 1997, respectively. ATF estimates obligations relating to canceled appropriations that will be paid from future appropriations will not exceed \$1.0 million in any fiscal year.

**NOTE 9****Net Position**

Net position of the Bureau as of September 30, 1998 and 1997 was as follows:

<b>FY 1998</b> <i>(In Thousands)</i>	<b>Trust Funds</b>	<b>Appropriated Funds</b>	<b>Other</b>	<b>Total</b>
Unexpended Appropriations:				
Unobligated - Available	\$ 8,670	\$ 19,199	\$ (104)	\$ 27,765
Unobligated - Unavailable	-	4,296	-	4,296
Undelivered Orders	14,161	116,958	-	131,119
Total Unexpended Appropriations	22,831	140,453	(104)	163,180
Cumulative Results of Operations	21,121	(72,380)	-	(51,259)
Net Position	<u>\$ 43,952</u>	<u>\$ 68,073</u>	<u>\$ (104)</u>	<u>\$ 111,921</u>

<b>FY 1997</b> <i>(In Thousands)</i>	<b>Trust Funds</b>	<b>Appropriated Funds</b>	<b>Other</b>	<b>Total</b>
Unexpended Appropriations:				
Unobligated - Available	\$ 9,354	\$ 29,226	-	\$ 38,580
Unobligated - Unavailable	-	4,301	-	4,301
Undelivered Orders	10,887	49,942	-	60,829
Total Unexpended Appropriations	20,241	83,469	-	103,710
Cumulative Results of Operations	11,350	(90,206)	-	(78,856)
Net Position	<u>\$ 31,591</u>	<u>\$ (6,737)</u>	<u>\$ -</u>	<u>\$ 24,854</u>

Unexpended appropriations represent the amount of spending authorized as of year-end that is unliquidated or unobligated and had not lapsed, been rescinded, or withdrawn. No-year appropriations remain available for obligation until expended. Annual 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. Beginning in FY 1998, this includes the cumulative amount of donations and transfers of assets in and out without reimbursement. In addition, there is no longer a segregation of cumulative amounts related to investments in capitalized assets or a separate negative amount shown for future funding requirements.

**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.

**NOTE 11**  
**Imputed Financing**

Imputed Financing for the year ended September 30, 1998 and 1997 included the following:

<i>(In Thousands)</i>	<u>FY 1998</u>	<u>FY 1997</u>
Funds paid by the Judgment Fund	\$ 489	\$ 6,724
Future pension and other retirement benefits financed by OPM	<u>24,963</u>	<u>26,674</u>
Total Imputed Financing	<u>\$ 25,452</u>	<u>\$ 33,398</u>

Imputed financing sources represent amounts paid in FY 1998 by the Judgment Fund to settle lawsuits and claims against the Bureau. Additional imputed financing is recognized for amounts financed in FY 1998 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 the 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 \$16.1 million is included as an expense and as an imputed financing source in the financial statements for FY 1998.

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 of \$34.2 million related to these plans were made for FY 1998. 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 1998 FEHBP cost factor applied to a weighted average number of employees enrolled in the FEHBP is \$2,529, which is provided by OPM. The FEHBP ORB amount totaling \$8.8 million is included as an expense and imputed financing source in ATF's financial statements for FY 1998. The FY 1998 FEGLI cost factor for employees enrolled in the FEGLI program is .02 percent of their basic pay. The FEGLI ORB amount totaling \$36,000 is included as an expense and imputed financing source in ATF's financial statements for FY 1998.

Total imputed financing sources for FY 1998 equal about \$25.0 million (the sum of \$16.1 million for pension expense, \$8.8 million for FEHBP ORB and \$36,000 for FEGLI ORB).

ATF's contributions for active employees who participate in the FEHBP were \$10.0 million for FY 1998. ATF's contributions for active employees who participate in the FEGLI programs were \$460,000 for FY 1998.

In addition to requiring ATF to record the full cost for pensions and ORB, SFFAS No. 5 requires recognition of an expense and liability for other postemployment benefits (OPEB), which includes all types of benefits to former or inactive employees, their beneficiaries, and covered dependents. ATF recognizes an expense and liability for OPEB when a future outflow or other sacrifice of resources is probable and measurable on the basis of events occurring on or before the end of the fiscal year.

**NOTE 12**  
**Budgetary Resource Information**

Budgetary resource information as of September 30, 1998 consisted of the following:

<b>FY 1998</b>	
<i>(In Thousands)</i>	
Net Amount of Budgetary Resources Obligated for Undelivered Orders at Year End	\$ 148,173
Available Borrowing and Contract Authority at Year End	\$ -
Adjustments During the Reporting Period to Budgetary Resources Available at the Beginning of the Year	\$ 28,193
Amount of Contributed Capital Received During the Reporting Period	-

**NOTE 13**

**Non-exchange Revenue**

As of September 30, 1998, non-exchange revenue collections and refunds consisted of the following:

<i>(In Thousands)</i>					
<b>Tax Year</b>	<b>Cumulative</b>				
	<b>Cash Collections</b>	<b>FY 1998</b>	<b>FY 1997</b>	<b>FY 1996</b>	<b>Prior Years</b>
	<b>Received</b>				
Excise Taxes	\$ 12,313,939	\$ 9,021,084	\$ 3,291,177	\$ 271	\$ 1,407
Fees and Licenses	111,601	107,179	3,992	-	430
Fines, Penalties, Interest and Other Revenue	410	348	23	34	5
<b>Total Non-exchange Revenue Collections</b>	<b>\$ 12,425,950</b>	<b>\$ 9,128,611</b>	<b>\$ 3,295,192</b>	<b>\$305</b>	<b>\$ 1,842</b>

<i>(In Thousands)</i>					
<b>Tax Year</b>	<b>Refunds</b>				
	<b>Disbursed</b>	<b>FY 1998</b>	<b>FY 1997</b>	<b>FY 1996</b>	<b>Prior Years</b>
	<b>FY 1998</b>				
Excise Taxes	\$ 251,180	\$ 132,927	\$ 112,902	\$ 3,325	\$ 2,026
Fees and Licenses	657	516	95	37	9
Fines, Accounts Receivable and Other Revenue	-	-	-	-	-
<b>Total Non-exchange Revenue Refunds</b>	<b>\$ 251,837</b>	<b>\$ 133,443</b>	<b>\$ 112,997</b>	<b>\$ 3,362</b>	<b>\$ 2,035</b>

**NOTE 14**

**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 SFAS No. 3, Accounting for Inventory and Related Property; OMB Bulletin No. 97-01; 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, ammunitions, 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 years ended September 30, 1998 and 1997. 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.

**FY 1998 Analysis of Changes in Seized Property**  
(Number of Transactions)

	<i>Balance</i>	<i>10/1/97</i>	<i>Net Adjustments</i>	<i>Seizures</i>	<i>Cash Adjustments</i>	<i>Remissions</i>	<i>Other Disposals</i>	<i>Forfeitures</i>	<i>Balance 9/30/98</i>
General Property- Prohibited Units		19,510	450	9,747	-	(504)	(357)	(7,896)	20,950

**FY 1997 Analysis of Changes in Seized Property**  
(Number of Transactions)

	<i>Balance</i>	<i>10/1/96</i>	<i>Net Adjustments</i>	<i>Seizures</i>	<i>Cash Adjustments</i>	<i>Remissions</i>	<i>Other Disposals</i>	<i>Forfeitures</i>	<i>Balance 9/30/97</i>
General Property- Prohibited Units		12,297	(751)	11,995	-	(21)	(450)	(3,560)	19,510

**NOTE 14**

**FY 1998 Analysis of Disposition of Forfeited Property**  
(Number of Transactions)

	<i>Balance 10/1/97</i>	<i>Net Adjustments</i>	<i>Forfeitures</i>	<i>Deposits</i>	<i>Sales</i>	<i>Transfers</i>	<i>Transfers to Third Parties</i>	<i>Destructions</i>	<i>Balance 9/30/98</i>
General Property - Prohibited Units	1,614	(687)	7,896	-	-	(55)	(158)	(6,292)	2,318

**FY 1997 Analysis of Disposition of Forfeited Property**  
(Number of Transactions)

	<i>Balance 10/1/96</i>	<i>Net Adjustments</i>	<i>Forfeitures</i>	<i>Deposits</i>	<i>Sales</i>	<i>Transfers</i>	<i>Transfers to Third Parties</i>	<i>Destructions</i>	<i>Balance 9/30/97</i>
General Property - Prohibited Units	866	-	3,560	-	-	(28)	-	(2,784)	1,614

## REQUIRED SUPPLEMENTAL INFORMATION

### Budgetary Information (Unaudited)

Budgetary Information as of September 30, 1998 consisted of the following:

<b>FY 1998</b> <i>(In Thousands)</i>	<i>Appropriated Funds</i>	<i>Revolving Funds</i>	<i>Trust Funds</i>	<i>Other Fund Types</i>	<i>Total</i>
<b>Budgetary Resources:</b>					
Budget Authority	\$ 532,601		\$ 29,421		\$ 562,022
Unobligated Balance - Beginning of Period	33,342		9,354		42,696
Spending Authority from Offsetting Collections	35,529		-		35,529
Adjustments, Anticipated for Rest of Year	27,544		649		28,193
Total Budgetary Resources	<u>\$ 629,016</u>		<u>\$ 39,424</u>		<u>\$ 668,440</u>
<b>Status of Budgetary Resources:</b>					
Obligations Incurred	\$ 610,114		\$ 30,754		\$ 640,868
Unobligated Balance - Available	12,046		6,076		18,122
Unobligated Balances - Not Available	6,856		2,594		9,450
Total Status of Budgetary Resources	<u>\$ 629,016</u>		<u>\$ 39,424</u>		<u>\$ 668,440</u>
<b>Outlays:</b>					
Obligations	\$ 610,114		\$ 30,754		\$ 640,868
Less: Spending Authority from Offsetting Collections and Adjustments	(66,007)		(649)		(66,656)
Obligated Balance, Net-Beginning of the Period	69,803		19,350		89,153
Obligated Balance Transferred, Net	-		-		-
Less: Obligated Balance, Net-End of the Period	(147,978)		(20,443)		(168,421)
Total Outlays	<u>\$465,932</u>		<u>\$ 29,012</u>		<u>\$ 494,944</u>

### Accrued Claims/Refunds not approved (Unaudited)

At September 30, 1998, ATF had approximately \$30.4 million in refund claims under audit by the Tax Processing Center and the Technical Services offices. Refunds are payable upon approval.

### Abatements/Write-offs (Unaudited)

ATF had approximately \$2.6 million 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.

# PRINCIPAL OFFICERS

Director ..... John W. Magaw  
Deputy Director ..... Bradley A. Buckles  
Chief Counsel ..... Stephen J. McHale  
Assistant Director (Field Operations) ..... Andrew L. Vita  
Assistant Director (Firearms, Explosives and Arson Programs) ..... Jimmy Wooten  
Assistant Director (Alcohol and Tobacco Programs) ..... Arthur J. Libertucci  
Assistant Director (Inspection) ..... Richard J. Hankinson  
Assistant Director (Liaison and Public Information) ..... David L. Benton  
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

***For additional information  
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