

DEPARTMENT OF THE TREASURY

**ATF**

**ACCOUNTABILITY REPORT**



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

---

## Director's Message

**T**he sensitive products that lie at the core of the mission of the Bureau of Alcohol, Tobacco and Firearms (ATF) bring careful scrutiny of our actions by all concerned. At ATF, we use the strict accountability that flows from this scrutiny to make a better agency that is responsive to the American people. Our serious approach to accountability is reflected in the ways we manage our financial and other resources, and in the efficient and effective programs we deploy to carry out our statutory responsibilities. In performing our important and often dangerous mission, the men and women of ATF are dedicated to reducing violent crime, collecting the revenue, and protecting the public. In a clear demonstration of this dedication and commitment, this year we received our sixth Unqualified Audit Opinion.

Fiscal Year 2000 proved to be the gateway to a year of e-based commerce in government. ATF followed a pioneering path of instituting technology-based programs that facilitate our mission. This action covered not only our law enforcement and regulatory mission, but encompassed many of our administrative functions. We were pleased to roll out a new accounting and financial management reporting system. In this bold step towards the future of government and business, we entered into a partnership with the Department of the Treasury's Financial Management Service to develop methods for the electronic filing of tax payments and returns making it easier to conduct business with us. We are proud of these initiatives which demonstrate our willingness to work with all of our customers.

Through technology, Fiscal Year 2000 also presented many opportunities to display ATF's experience and excellence in the arenas of alcohol, tobacco and firearms enforcement. A web database was introduced containing all Certificates of Label Approval (COLAs) issued after January 1, 1996. With more than 110,000 COLAs on-line, alcohol industry members and the public are now able to view label applications. With the implementation of the Federal firearms licensee eZ Check system, we have strengthened our working relationships with industry and can further protect consumers. We also were able to encourage our law enforcement partners at the Federal, State, and local levels everywhere to "follow the gun," by instituting Online LEAD and requesting that all evidentiary firearms be traced.

An indication of the efficiency and efforts of ATF is noted in our growing budget and the use of the resources we are appropriated by Congress. Land was cleared for our National Laboratory and Fire Research Center and we finalized site selection for our new Headquarters facility. We are proud to have implemented a pay-banding system for several series of positions that will focus a rating and appraisal system and enable us to hire and retain the best and the brightest chemists, fire protection engineers, and computer specialists. In addition, our budget has allowed for greater hiring, done in part through the initiation of the Special Agent Recruitment Center and the implementation of "Schedule B" hiring plan for special agents.

The preceding year has been one of growth and achievement. I am proud of the work accomplished by the men and women of ATF. We strive for excellence and are always willing to accept the challenges that accompany our

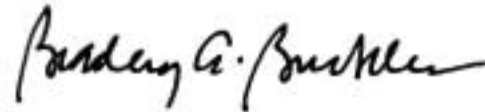


---

mission of reducing violent crime, collecting revenue, and protecting the public. We are proud to meet the challenges and opportunities for continued growth with innovation, hard work, and the spirit of determination.

This annual accountability report is one of many reports that ATF has issued over the past few years, sending a strong and open message to the public and our customers. By this report, we are asking the public and the citizens we protect and work for to review our mission, and be clear about our purpose, our policies, and our projects. Only through a thoughtful and meticulous accounting of our actions, revealed in this report and others we have produced over the years, can the public be best served and knowledgeable about this Bureau. It is an honest and rigorous business practice that demonstrates the high standards the men and women of this Bureau proudly follow.

Thank you.

A handwritten signature in black ink, reading "Randolph A. Buckler". The signature is written in a cursive style with a large, prominent initial "R".

---

## Message from the Chief Financial Officer



From left to right, William T. Earle, Chief Financial Officer (CFO); Marguerite R. Moccia, Deputy CFO; and Vivian A. Baran, Financial Manager.

**W**hen we started Fiscal Year 2000 we knew there were significant challenges ahead. In some ways it was akin to a homeowner taking on a total house overhaul. Our challenge was to move from our comfortable but aging (main frame-based) core financial system to a best of breed (client server) architecture.

A full-scale implementation would have to run concurrently with the phase out of the old system. In October 1999, over 500 recently trained users peered into the live environment for the first time. The conversion team consisting of ATF employees and contractors worked around the clock for weeks, dealing with user questions and managing a test environment that was stretched to the limits.

The good news is that Fiscal Year 2000 ended with our new system in place and operating. And just as proud craftsmen would look back with pride on their refurbished home, our technicians and specialists who implemented the new system are extremely pleased with the product of their labors.

Though sophisticated systems enable us to work at higher levels of productivity and accuracy, it is really the resilience of the men and women of ATF who make great achievements seem routine.

The skilled and resolute staffs within the Bureau have made it possible for us to celebrate another exceptional accomplishment -- a sixth straight Unqualified Audit Opinion! Receiving this opinion is all the more impressive given the arduous task of converting data, training personnel and redefining our financial culture as transitioned to our new system.

This accountability report is more than a collection of facts and numbers. It is really the story of a family of very talented and dedicated men, women and a few canines who seek to make America a safer and fiscally sound nation. Their efforts are chronicled not only here but also in the newspapers, magazines, and documentaries published all across America over the past year.

I hope you enjoy our story. We are very proud of our accomplishments and humbled by the trust that is placed in us to be good stewards of the taxpayer's resources.

e-mail address [wtearle@atfhg.atf.treas.gov](mailto:wtearle@atfhg.atf.treas.gov)

---

# Table of Contents

Message from the Director .....	i
Message from the Chief Financial Officer .....	iii
FY 2000 Highlights .....	1
Management's Discussion and Analysis .....	5
Mission and Organizational Structure .....	5
Major Challenges Facing ATF .....	7
Performance Goals and Results .....	9
Reduce Violent Crime .....	9
Collect Revenue .....	18
Protect the Public .....	22
Bureau-wide Programs .....	27
Financial Results, Position and Condition .....	35
Overview of Financial Data .....	35
Budget Integrity .....	35
Cost Accounting and Performance Measurement .....	38
Financial Performance .....	39
Limitations of the Financial Statements .....	41
Systems and Controls .....	42
Financial Systems .....	42
Federal Managers' Financial Integrity Act (FMFIA) Summary .....	43
Policies and Procedures .....	43
Auditor's Report on Financial Statements .....	44
Financial Statements .....	50
Notes to the Financial Statements .....	57
Required Supplementary Information .....	73
Principal Officers of ATF .....	75

---

# 2000 Highlights

## Reduce Violent Crime

- ❖ Conducted approximately 1,000 comprehensive compliance inspections of Federal firearms licensees (FFL), based on recommendations to inspect dealers with indicators of illegal firearms trafficking in a February 2000 ATF report entitled "Commerce in Firearms in the United States." ATF inspected retail firearm dealers who did not cooperate with firearm traces and had more than 10 firearms traced to them in 1999. As a result of these inspections, 1,336 unresolved traces were completed.
- ❖ Completed an automated referral system to process and track referrals received from the Federal Bureau of Investigation (FBI) to implement the National Instant Criminal Background Check System (NICS). Since the inception of NICS through September 30, 2000, ATF had received and processed over 140,000 referrals from the FBI, and after review, sent over 40,000 of those referrals to field offices for investigation.
- ❖ Trained the first group of field agents on Youth Crime Gun Interdiction Initiative (YCGII) for the purpose of delivering firearms instruction block to State and locals. The Office of Training and Professional Development (TPD) developed a training CD-ROM to aid in the delivery of firearms identification and tracing procedures for State and local police officers, Federal law enforcement officers, and ATF personnel in support of YCGII.
- ❖ Completed the construction of a state-of-the-art training facility in Front Royal, Virginia, for accelerant and explosives detection canines for State, local, and international law enforcement.
- ❖ Completed the development of and disseminated the InterFIRE training CD-ROM, a computerized virtual reality training tool for fire investigators at every level. This training CD is complemented by the InterFIRE website, which provides a continuously updated resource for in depth information on fire investigation methodologies, training, and research.

## Collect Revenue

- ❖ Collected \$14.1 billion in revenue generated from Federal excise taxes imposed on alcohol, tobacco, firearms, and ammunition.

- ❖ Investigated 125 diversion cases of alcohol and tobacco products, resulting in 70 defendants recommended and \$2 million in seized property credited to the Treasury Asset Forfeiture Fund. A United States distillery made restitution of \$1 million to the Ukrainian Republic for smuggling distilled spirits. The distiller also had its operating permit suspended for seven days and submitted an offer-in-compromise for the recordkeeping violations.
- ❖ Conducted 1,347 inspections at revenue producing plants, resulting in 1,371 violations and \$4 million in additional excise taxes assessed.
- ❖ Implemented new field inspection targeting programs designed to identify those operations that pose the greatest risk to the revenue.
- ❖ Entered E-Government partnership with the Financial Management Service to develop methods for electronically filing ATF reports, tax payments, and returns.

## Protect the Public

- ❖ Settled a total of nine (9) trade practice, advertising, and labeling investigations; resulting in \$1 million in offers in compromise and one five-day suspension.
- ❖ Reviewed 65 alcohol advertisements; resulting in two investigations, 10 corrections, and three withdrawals from the market.
- ❖ Implemented new field inspection targeting programs designed to identify those operations that pose a risk to protect the public with regard to alcohol product integrity.
- ❖ Enhanced the alcohol sampling program by selecting seven cities for targeted sampling. Sampling focused on imported and cultural products resulting in over 381 products found to be not in compliance out of 1,071 tested.
- ❖ Found and corrected a total of 1,119 public safety violations during explosives compliance inspections.
- ❖ Launched "FFL EZ Check" — an online Federal firearms license (FFL) authenticator website — to reach out to and develop new working relationships with the firearms industry and consumers, and to strengthen existing relationships. Online "FFL EZ Check" aids the firearms industry in

---

preventing the fraudulent use of their licenses by individuals who alter copies of licenses to illegally acquire and supply firearms to criminals and youth. The web site allows a Federal firearms licensee who has a copy of a Federal firearms license to verify or authenticate the license prior to shipping or disposing of a firearm(s) to the licensee. The web site verifies the information shown on the license.

- ❖ Implemented a highly trained cadre of ATF explosives enforcement officers who are the only Federal law enforcement divers in the United States qualified to dive for improvised explosive devices (IEDs). The officers are frequently called upon by State and local law enforcement agencies and ATF agents in support of criminal investigations.
- ❖ Developed an ATF-funded underwater explosives recovery school for State and local bomb technicians/divers. ATF co-developed this course with the Edmond, Oklahoma Police Department.

### Bureau-wide Programs

- ❖ Implemented Advanced Explosives Destruction Techniques training (AEDT) for State and local certified bomb technicians and ATF certified explosives specialists. This training provides advanced instruction in the areas of destruction and disposal of bulk explosives, deteriorated explosives, fireworks, ammunition, and precursor chemicals. This much-needed course was implemented following a number of fatalities to bomb technicians during disposal operations over the last five years.
- ❖ Distributed 300 inert explosives kits to ATF special agents throughout the United States. These kits will be used to educate law enforcement and civilian groups in the recognition and danger of explosives.
- ❖ Successfully converted ATF's financial system from a mainframe to client-server environment and re-engineered 20 major business processes.

The new system was deployed to over 500 users nationwide, and nearly 7,500 staff hours of training were provided in the three months prior to conversion.

- ❖ Upgraded the Bureau property system to the client-server version of the software. This version significantly improves performance and will allow for access to the system throughout the Bureau. In FY 2001, ATF will evaluate several options and select one that will best permit the integration of the property application with the financial system.
- ❖ Developed and implemented the Department of the Treasury's Demonstration Project for Designated Critical Positions within the Bureau. Converted employees into the project beginning in January 2000. The pilot project, established by Congress in 1998, allows Treasury to test new personnel management practices designed to improve Treasury's capacity to recruit, develop, and retain a workforce of the highest caliber; and covers 950 positions within ATF, Secret Service, and U.S. Customs Service. The Demonstration Project includes a broad-banding and pay-for-performance compensation system and other flexible recruitment and retention options; such as expanded recruitment and relocation bonuses, retention allowances, certification and licensure bonuses, and education supplements. Approximately 90 percent of the eligible employees elected to participate in the Project. Authority for the Project ends on October 19, 2001.
- ❖ Assigned a Senior Executive to head the Recruitment Center (RC). This new Deputy Assistant Director will be responsible for expediting and streamlining the recruiting and hiring process. The new RC will be instrumental in the hiring of inspectors and special agents, who are the mainline occupants to help fight violent crimes, collect the revenue owed, and protect the public.

---

# 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 also must continue to do our part to maintain the economic stability of the country. Our vision will help us chart the course to change the way we do business and achieve new levels of effectiveness and teamwork.

# Mission

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

# ATF Values

The Bureau of Alcohol, Tobacco and Firearms:

We value each other and those we serve.

We will:

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



# ATF's Activities, Programs, and Performance Measures

Activity	Programs	Performance Measures
<p><b>Reduce Violent Crime:</b></p> <p>Effectively contribute to a safer America by reducing the future number and cost of violent crimes.</p>	<ul style="list-style-type: none"> <li>● Deny criminals access to firearms.</li> <li>● Safeguard the public from arson and explosives incidents.</li> <li>● Remove violent offenders from our communities.</li> <li>● Prevent violence through community outreach.</li> </ul>	<ul style="list-style-type: none"> <li>● Crime-related costs avoided.</li> <li>● Future crimes avoided.</li> <li>● Number of ATF and non-ATF persons trained/developed.</li> <li>● Number of firearms traces.</li> <li>● Average trace response time.</li> </ul>
<p><b>Collect Revenue:</b></p> <p>Maintain a sound revenue management and regulatory system that continues reducing taxpayer burden, improves service, collects the revenue due, and prevents illegal diversion.</p>	<ul style="list-style-type: none"> <li>● Fully implement the National Revenue Center.</li> <li>● Collect all revenue that is rightfully due.</li> <li>● Use electronic commerce.</li> </ul>	<ul style="list-style-type: none"> <li>● Taxes/Fees collected from alcohol, tobacco, firearms and explosives industries.</li> <li>● Ratio of taxes and fees collected vs. resources expended.</li> <li>● Burden hours reduced.</li> </ul>
<p><b>Protect the Public:</b></p> <p>Protect the public and prevent consumer deception in ATF's regulated commodities.</p>	<ul style="list-style-type: none"> <li>● Assure the integrity of the products, people, and companies in the marketplace.</li> <li>● Ensure compliance with laws and regulations through education, inspection, and investigation.</li> <li>● Inform the public.</li> </ul>	<ul style="list-style-type: none"> <li>● Response to unsafe conditions and product deficiencies discovered (explosives).</li> <li>● The number of commodity seminars held.</li> <li>● Number of inspections (explosives).</li> <li>● Percent of population inspected (firearms).</li> </ul>

---

# Management's Discussion and Analysis

## Mission and Organizational Structure

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

ATF's National Headquarters, located in Washington, DC, consists of offices that develop major policies and programs in accordance with the applicable laws and regulations that 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 Leadership Team and Investment Review Board. The Office of the Director includes the Deputy Director, Ombudsman, and Executive Assistants for Legislative Affairs, Equal Opportunity, and the Strategic Planning Office.

Geographically, ATF has offices in every major U.S. city and in Mexico, Canada, Colombia, Guam, U.S. Virgin Islands, the Commonwealth of Puerto Rico, and France. The field structure comprises twenty-three (23) Field Divisions strategically located throughout the United States, with a single executive heading each office and having responsibility for all law en-

forcement and revenue activities assigned within the Office of Field Operations. Plans are underway for field divisions to have on-site legal and forensic audit support and equal opportunity policy advisors. At this time, ATF has Counsel offices in 15 field divisions (Atlanta, Boston, Charlotte, Chicago, Columbus, Dallas, Detroit, Miami, New Orleans, New York, Philadelphia, Phoenix, San Francisco, Tampa, and Washington).

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

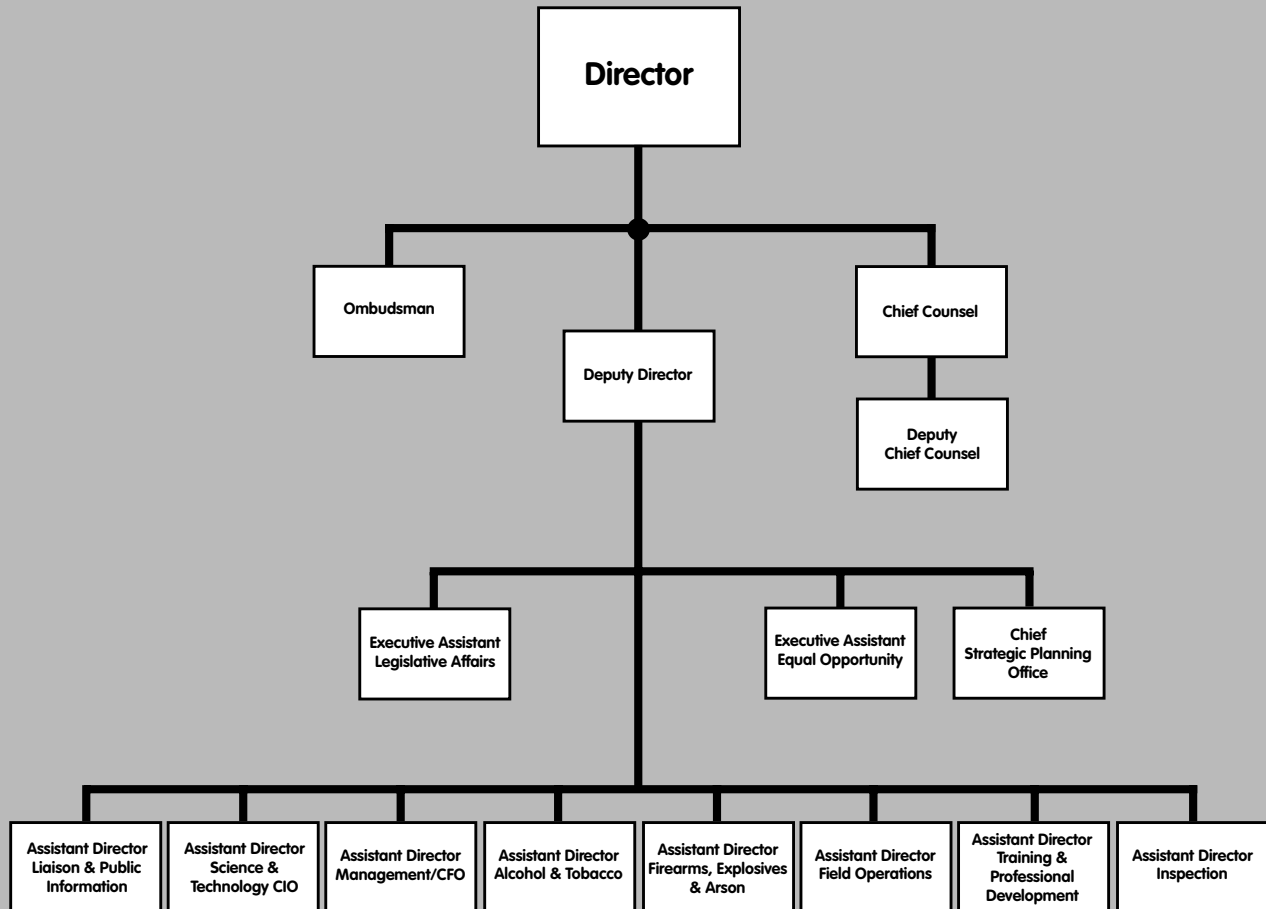
In addition, ATF operates the following service centers and training facilities throughout the United States:

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

As of September 30, 2000, ATF had 4,576 employees on board, 4,472 of which were full-time permanent employees. Additional information on ATF's programs is provided in the Management's Discussion and Analysis section of this report. ATF's Internet site also contains other supporting documentation and reference materials. It can be accessed at <http://www.atf.treas.gov>.

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

## Executive Staff



# Major Challenges Facing ATF

At the beginning of fiscal year 2000, ATF faced a number of challenges, including the calendar year 2000 conversion (Y2K), which was of universal concern. A more immediate concern was the conversion of the accounting system from the mainframe-based Financial Management Information system (FMIS) to the client-server-based Financial Resource Desktop System (FReD). ATF was also involved in a pilot of a Treasury-wide human resource system. In addition, looming on the horizon was the prospect of obtaining approval on a new ATF Headquarters building and the ground breaking for a new National Laboratory Center (NLC).

ATF successfully met the challenge of implementing the new accounting system; had no glitches during the Y2K rollover; and encountered few problems in its participation in the human resources pilot. The objectives associated with the new ATF Headquarters building and the NLC are intact and moving forward. Ultimately, the new facilities will improve morale, and in the case of the NLC, provide a platform for new performance challenges for future ATF programs.

## New Buildings Projects

Initiatives and final congressional authorization leading to new technologically upgraded and safer facilities for the Bureau were met in fiscal year 2000. The goal is to occupy both buildings within the next four years. The completion of these two facilities for ATF will provide radically improved efficiency of mission functions. The technology infrastructure capabilities for ATF's future will be upgraded; and the Bureau will be situated toward the forefront of investigative and regulatory support, law enforcement operations, and delivery of services to industry, State and local customers, and the public.



## National Laboratory Center

The new ATF National Laboratory Center (NLC) on the Ammendale Business Park Campus in Northern Prince Georges County, Maryland, is being developed by the General Services Administration (GSA) for ATF. The NLC will provide new, modern space to conduct investigations and testing, more effective facilities technologies, and improved safety conditions meeting laboratory accreditation requirements. The NLC also has been designed to facilitate the investigation, research and data collection of fire and arson cases for ATF and the international fire science community. The development of the new NLC is crucial to the successful implementation of ATF's Strategic Plan, a portion of which addresses improved investigations in support of criminal enforcement in all ATF jurisdictional areas, including bombings and major fires.

The new NLC will house three different laboratories and continue as the administrative headquarters for the entire ATF Laboratory System. The Forensic Science Laboratory (FSL) and Alcohol and Tobacco Laboratory (ATL) will be relocated from their current location in Rockville, Maryland. The third laboratory, the Fire Research Laboratory (FRL) will provide a new research capability for the Bureau. The new NLC was designed to meet the requirements of each laboratory's unique functions and critical demand.

The FSL's mission is to support crime scene investigations for ATF and State and local law enforcement agencies relating to firearms, bombings and major fires.

The ATL conducts chemical, physical and instrumental analyses on the alcohol and tobacco products that ATF regulates. This work supports the Bureau's regulatory enforcement activities to collect the revenue due the government and to protect the public in their consumption of these products.

The FRL will concentrate on forensic research and testing to support fire investigations. It will also support partnerships and the sharing of information among other fire science organizations around the globe. The new FRL will allow ATF scientists and engineers to recreate large fire scenarios under controlled and environmentally safe conditions. Where the handful of other fire laboratories in the world focus on consumer and industry safety, the ATF fire research program and facilities are being carefully designed to conduct the unique kind of forensic testing that will provide the tools



# Reduce Violent Crime

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

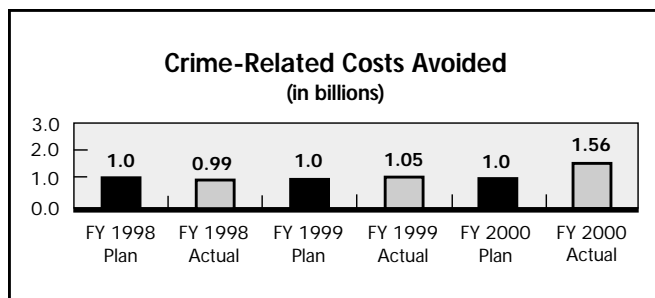
**Strategic Goal:** Effectively contribute to a safer America by reducing the future number and cost of violent crimes.

**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).

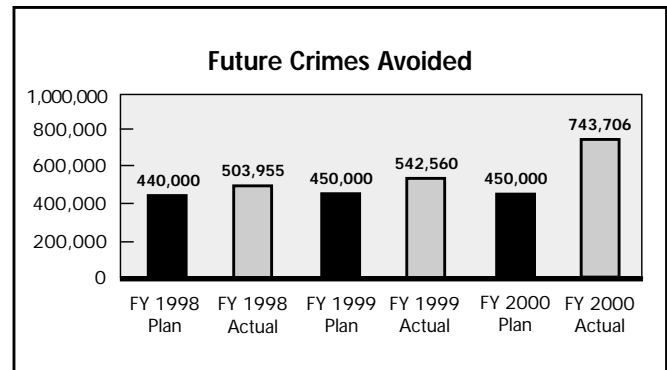
This measure tracks the estimated costs saved by incarcerating violent career criminals. Measures refer to firearms-related programs only.



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

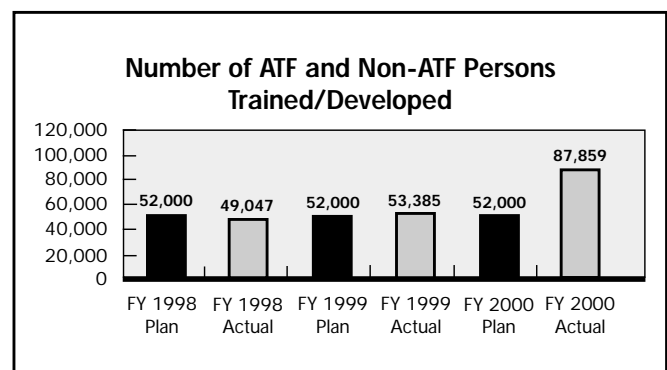
**Performance Measure:** Future crimes avoided.

This measure represents the number of crimes that are prevented when armed career criminals and firearms traffickers are incarcerated. The number of criminals sentenced is multiplied by the number of crimes that would have been committed by these criminals during the course of their incarceration. Measures refer to firearms-related programs only.



**Performance Measure:** Number of ATF and non-ATF persons trained/developed.

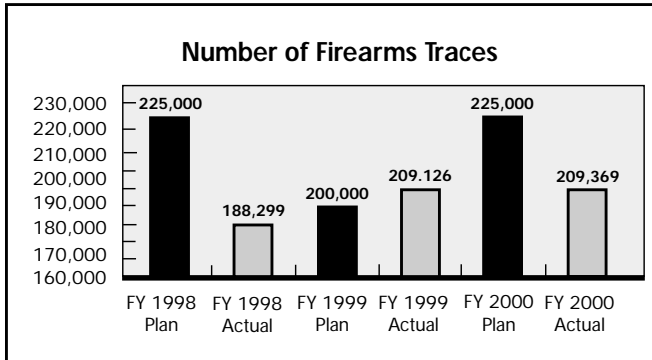
This measure tracks the number of ATF personnel trained, and the number of individuals who are trained by ATF personnel including Federal, State, local, international law enforcement personnel, and industry members who attend ATF seminars.



The FY 1999 and FY 2000 actual (53,385 and 87,859 respectively) represents the number of ATF and non-ATF persons trained/developed. The FY 1998 actual (49,047) only represents the number of non-ATF persons trained/developed.

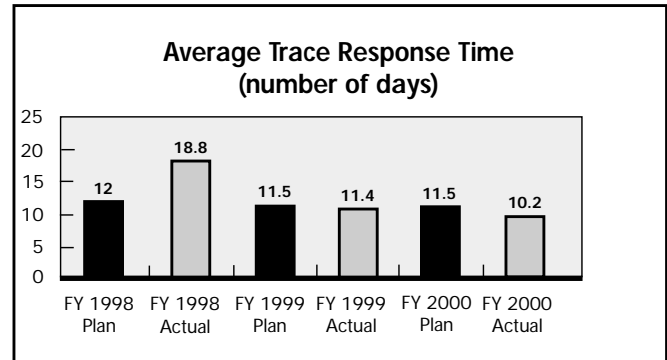
Performance Measure: Number of firearms traces.

This measure reflects the number of trace requests submitted during the fiscal year.



The FY 2000 goal, which was not met, was based on expected expansion of comprehensive tracing on a nation-wide basis similar to that of YCGII cities. However, it should be noted that several police departments are participating and ATF has provided technical equipment to 117 law enforcement agencies for tracing. Approximately 70 of the agencies are now performing comprehensive tracing.

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



In FY 1998, the National Tracing Center underwent a complete change over in the systems platform for the Firearms Tracing System Database. This impacted the FY 1998 projection of a 12-day average per trace, resulting in an average of 18.8 days.

# Program: Deny Criminals Access to Firearms

## Illegal Firearms Trafficking

ATF reduces the criminal availability of firearms by identifying illegal sources of firearms and recommending prosecution of illegal firearms traffickers. Overall goals include investigating the most active illegal firearms traffickers, preventing future firearms crimes, and reducing crime-associated costs by incarcerating illegal firearms traffickers. This program has both domestic and international components.

## Youth Crime Gun Interdiction Initiative (YCGII)

This component of ATF's nationwide Firearms Trafficking Program identifies and investigates the illegal sources of firearms to youths. As of FY 2000, ATF had implemented the program in 38 cities, with plans to expand coverage to 75 cities within the next few years. Two major goals of YCGII are to encourage comprehensive crime gun tracing by State and local law enforcement agencies and to provide crime gun market analyses to break the chain of illegal supply of firearms to youths.

## International Firearms and Explosives Trafficking

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

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

## Brady/NICS Investigations

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

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

In FY 2000, ATF completed an automated referral system to process and track referrals received from the FBI. To date, ATF has received, processed and reviewed more than 140,000 referrals. Of the 140,000 referrals, more than 40,000 were sent to field offices for investigation.

## National Tracing Center

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

The NTC is the only operation of its kind in the world. This facility conducts traces of firearms recovered at crime scenes and from youth for any Federal, State, local, or international law enforcement agency. The specific goal of the NTC is to increase the number of trace requests via increased electronic access to NTC information. In FY 2000, the NTC processed 209,369 crime gun traces. The NTC is the only repository for all FFL out-of-business records, where millions of records are currently stored.

ATF developed and initiated the Electronic Trace Submission System (ETSS). ETSS is currently deployed in 117 law enforcement agencies. Police departments in the YCGII cities can now electronically transmit crime gun trace requests to NTC.

The Crime Gun Analysis Branch provides ATF personnel and other law enforcement agencies with crime gun data specific to their geographical areas. The Branch uses crime gun data amassed by the NTC to identify illegal firearms trafficking patterns and trends throughout the world. The Branch conducts in-depth analysis using graphs and maps to provide visual effects. Online LEAD, a computerized investigative tool, is used by ATF personnel to identify illegal traffickers. The web-based Online LEAD software provides ATF field personnel and industry members with real-time statistical information concerning the segments of the firearms industry regulated by ATF.



In FY 2000, the Crime Gun Analysis Branch made approximately 2,127 referrals to ATF field divisions. A total of 115 proactive referrals were also made to ATF field divisions. Crime Gun Analysis Branch employees conducted more than 32,000 queries. A total of 1,302 queries were processed for either a FFL history query or an individual history query. The Crime Gun Analysis Branch processed over 50 Geographic Information System (GIS) mapping projects. In addition, GIS maps were completed for each city receiving YCGII funding.

## Stolen Firearms

This project, designed to assist the Firearms Trafficking Program, seeks to reduce thefts of firearms from Federal firearm licensees and interstate carriers transporting firearms. This is accomplished through collecting and analyzing firearm licensee and interstate carrier theft information, and providing investigative leads to special agents and inspectors. In FY 2000, the Stolen Firearms Program staff received 2,562 reports of theft/loss of firearms from FFLs with 16,265 firearms reported lost/stolen. It also received 862 reports of firearms missing/stolen from interstate shipments with 1,747 firearms reported lost/stolen. Firearm theft recoveries reported in FY 2000 were 18,012.

All of these reports of thefts and recoveries were provided to ATF field offices for their consideration in opening a criminal investigation.

## Program: Safeguard the Public From Arson and Explosive Incidents

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

## Prevent Criminal Misuse of Explosives

Through this program, ATF provides resources to identify and pursue those who misuse explosive materials in bombings and arson fires. ATF has a cadre of explosive technologists with unique capabilities in explosives and bomb disposal. Their experience ranges from the ability to construct facsimiles of

explosive and incendiary devices to assisting the State Department and the Diplomatic Security Service in conducting antiterrorism capability assessments outside of the continental United States.

## National Repository

Information about arson and explosives incidents is available for statistical research and analysis, investigative leads, and intelligence. The Arson and Explosives Incidents System (AEXIS) is an enhancement of the ATF Explosives Incidents System (EXIS) and incorporates information from Federal, State, and local fire, service/law enforcement personnel, bomb technicians, and explosives investigators. The principal Federal partners in the data collection effort are ATF, the FBI, and the United States Fire Administration (USFA).

The National Repository Branch trained 19 ATF field divisions on AEXIS. The Branch provided international training on AEXIS to law enforcement officials in the United Kingdom, Australia, Germany, and France.

## Church Fires

In early 1996, Federal officials detected a sharp rise in the number of reported attacks at houses of worship, especially among African-American churches in the South. In June 1996, President Clinton formed the National Church Arson Task Force (NCATF) and made the investigation of these fires a top priority of Federal law enforcement. The task force combined the efforts of ATF, the FBI, Justice Department attorneys, Federal Emergency Management Administration, Department of Housing and Urban Development, and the Community Relations Service of the Department of Justice. ATF was designated as the lead Federal agency to investigate the origin and cause of fire and bombing incidents at houses of worship.

The task force has opened 813 arson/bombing investigations. A total of 353 defendants have been arrested nationwide, which solved 286 of the 813 investigations. ATF's Intelligence Division has reviewed 6,301 investigative leads and entered information on 1,395 crime scenes into its analytical database.

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.

The Task Force attributes the reduction of church fires to a variety of factors, including increased vigilance, well-publicized arrests, and ongoing prevention efforts. On July 11, 2000 Jay Scott Ballinger pleaded guilty to setting 26 churches on fire in eight states between

1994 and 1999. Federal prosecutors are seeking a sentence of more than 42 years in prison. The Ballinger pleas represent the largest number of fires linked to a single defendant since the Task Force was created.

## Canines

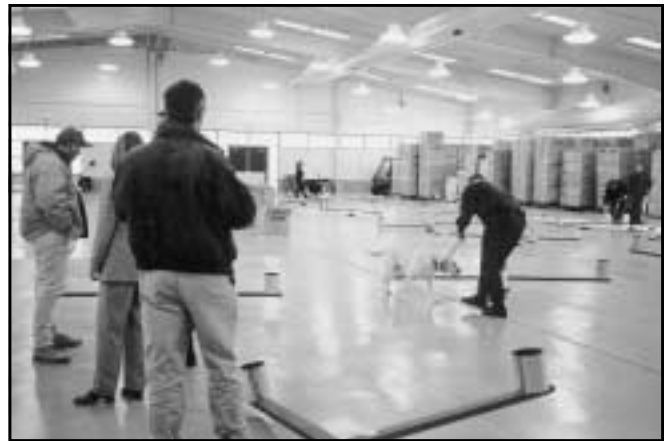
The Accelerant Detection Canine Program began as a product of a joint ATF/ Connecticut State Police endeavor to place accelerant detection canines with State and local agencies to support their arson investigation activities. ATF currently has 46 accelerant detecting canines working for State and local agencies. In 2000, ATF trained 15 additional accelerant detection canine teams at the Canine Training Center in Front Royal, Virginia.



*Canine Training Facility in Front Royal, VA.*

Under a training arrangement with the U.S. Department of State, ATF trains explosive detection canines for foreign countries to be used overseas in the war against terrorism and to protect American travelers abroad against terrorism. Since 1990, ATF has certified 225 canine teams for the program, deployed in 12 countries worldwide. In FY2000, ATF trained 20 additional canine teams and six 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.

In 1997, ATF began training explosives detection canine teams for State, local and other Federal agencies. Currently, there are 28 ATF-certified explosives detection canine teams working throughout the United States. Six of these teams are ATF special agent/canine teams. They are stationed in Atlanta, Dallas, Miami, Los Angeles, San Francisco, and Washington, DC.



*Congressional staff members learn about ATF's explosives detection canines on a visit to the canine training facility.*

## Research Initiatives

In FY 1999, 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. The objective of the program is to create a computer database and investigative protocol to assist investigators when processing large car bomb scenes. In 1999, the tests included the evaluation of road sign damage from blasts, taggant survival/retrieval, and explosives residue testing.

Currently, ATF has two full-time fire protection engineers, making it 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. Additional fire scientists and engineers are being recruited in order to support criminal investigations and the new Fire Research Laboratory at the National Laboratory Center.



*Law enforcement officials observe the destruction to a car from a pipe bomb and C-4 plastic explosives.*

## Effective Post-Incident Response

ATF believes 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.



*National response team in action; team member briefs ATF Director, Deputy Director, and Assistant Director (OST).*



The NRT can respond within 24 hours to major bombing and fire scenes anywhere in the United States. In FY 2000, the team provided effective post-incident response in 32 activations. These incidents involved \$179.5 million in damages and were responsible for four fatalities and 17 injuries. Arrests were made in 42 percent of the criminal incidents investigated by

the NRT, a percentage considerably greater than that for like incidents investigated nationwide. ATF continues to conduct customer satisfaction surveys of those who used the NRT this year, using the tabulated data to determine the NRT's effectiveness.

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 2000, ATF led formal arson task forces in 16 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 2000, there were 76 of these investigators stationed throughout the United States. Eight CFI candidates will be certified in FY 2001. This allows for the strategic placement of investigators throughout the country to assist Federal, State, and local agencies with fire origin and cause determinations and training. ATF's 250 CES personnel, who have developed an unmatched level of expertise in post-blast analysis through years of experience, are proficient in all aspects of explosive identification, handling, instruction, demonstration, and destruction.

Because many arson crimes involve insurance, bank, mail, and other types of fraud, these investigations often require complex forensic financial analyses. These complex financial investigations are provided through ATF's Office of Science and Technology, Audit Services Division. The office also provides comprehensive forensic science services; supporting the task forces with financial auditing services, information systems and equipment, and high-speed data communications. This includes Internet access to facilitate the research and exchange of national and international technical data and intelligence.

Final delivery of the InterFIRE virtual reality CD-ROM training package was accomplished in FY 2000.

Federal, State, and local investigators across the country received this resource, which combines the latest investigative techniques with state-of-the-art interactive computer training technology to create the most comprehensive fire investigation training tool to date. ATF received a Hammer Award from Vice President Gore's National Performance Review, recognizing the value of this to law enforcement for investigating the crime of arson.

## Program: Remove Violent Offenders From Our Communities

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



*Bomb technician students are taught proper and safe disposal through a controlled explosive shot.*

### Armed Violent Criminal Apprehension Program

This program uses specific provisions of the 1968 Gun Control Act, as amended, which mandate extended periods of incarceration for the most dangerous, armed career criminals and armed drug traffickers to remove

them from the streets. This is accomplished by identifying, investigating, and recommending the prosecution of individuals who use or carry firearms during and in relation to crimes of violence and drug trafficking offenses, and individuals who are actively involved in other armed violent crimes. Further, the firearms they possess yield valuable information regarding their previous criminal acts and criminal associates. Through the firearms tracing process, the illegal firearms sources for these violent criminals are investigated under ATF's Firearms Trafficking Program. These two complementary programs strive 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.

ATF also participates in numerous task forces nationwide with Federal, State, and local agencies; and supports intensive prosecution efforts, such as Project Exile. Exile, which began as a Federal initiative, has also been replicated at the State level, such as in Virginia.



*EXILE sign near the nation's capital.*

## **National Integrated Ballistics Information Network (NIBIN) Program**

The purpose of this program is to provide support to law enforcement agencies experiencing serious firearms-related violent crime. The program goal is to provide focused investigative assistance to ATF's partners through the integration of ATF's various firearms enforcement and forensic technology resources. The NIBIN concept combines ATF's former CEASEFIRE and the FBI's DRUGFIRE Program initiatives into a federally sponsored initiative that creates a partnership among ATF, the FBI, and State and local law enforcement. Under the NIBIN Program, ATF is utilizing state-of-the-art equipment, known as the Integrated Ballistics Identification System (IBIS), that allows firearms technicians to digitize, correlate, and compare bullet and shell casing signatures automatically at a greatly accelerated rate. The equipment expeditiously provides investigators with leads to solve a greater number of crimes in a shorter period of time.

ATF, the FBI, and a representative from State and local law enforcement have formed a partnership to ensure that agencies have the opportunity to acquire automatic ballistics technology. In December 1999, ATF and the FBI signed a memorandum of understanding (MOU) agreeing to merge their ballistics imaging technology programs into one jointly managed program with a single unified computer system. The MOU

delineates overall responsibility for all current and future system sites, including the conversion of the FBI's existing DRUGFIRE hardware to IBIS equipment. The FBI will establish and maintain a high-speed, secure communication network.

ATF will deploy additional IBIS units in FY 2001 after the Department of Treasury approves a revised standard memorandum of understanding that ATF must execute among the partner agencies. This MOU outlines program responsibilities of each agency regarding the management of this program.



*An ATF employee examining ballistic results using IBIS.*

## **Program: Prevent Violence Through Community Outreach**

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

### **G.R.E.A.T. Program**

The mission of the Gang Resistance Education and Training (G.R.E.A.T.) Program is to provide classroom instruction for school-aged children and a wide range of community-based activities that result in the necessary life skills, a sense of competency, usefulness, and personal empowerment needed to avoid involvement in youth violence and criminal activity. The Bureau provided funding to 209 different agencies to support their participation in the G.R.E.A.T. program in FY 2000. Over 1,608 agencies have over 4,440 officers certified to teach the program. During FY

2000, G.R.E.A.T. officers around the country have taught approximately 336,959 school-aged children.

As a result of a partnership established with Boys and Girls Clubs and the National Police Activities League (PAL) last year, G.R.E.A.T. officers taught the G.R.E.A.T. program in over 50 cities nationwide in non-school environments. Students continue to have positive role models and adult leadership to reinforce the lessons taught in G.R.E.A.T. at school and throughout the summer months.

: In FY 2000, G.R.E.A.T.'s five regional training partners:  
: in LaCrosse, Wisconsin; Phoenix, Arizona; Orange  
: County, Florida; Portland, Oregon; and Philadelphia,  
: Pennsylvania; conducted 30 weeks of G.R.E.A.T.  
: Officer Training programs, including two remote  
: locations in Arizona and Florida.



*G.R.E.A.T. program participants in Atlanta.*

# Collect Revenue

ATF plays a critical role in the Federal Government's tax collection process. Through this activity, in FY 2000, the Bureau collected over 14.1 billion dollars in excise taxes levied on alcohol [wine, distilled spirits, and malt beverages] and tobacco products, firearms, and ammunition.

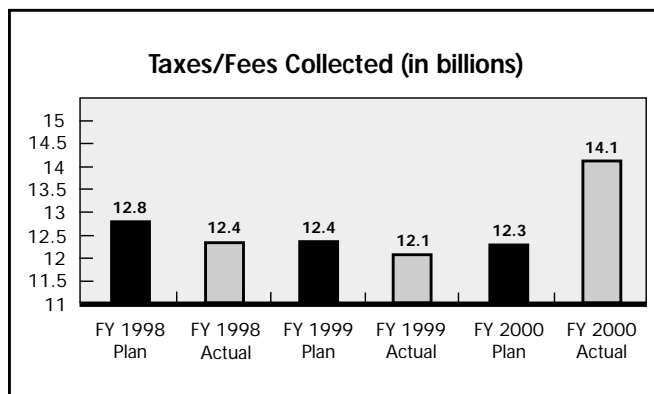
**Strategic Goal:** Maintain a sound revenue management and regulatory system that continues reducing taxpayer burden, improves service, collects the revenue due, and prevents illegal diversion.

**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

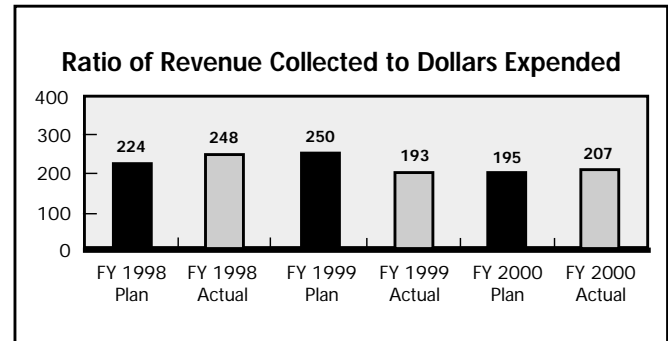
**Performance Measure:** Taxes/fees collected from alcohol, tobacco, firearms and explosives industries (in billions).

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



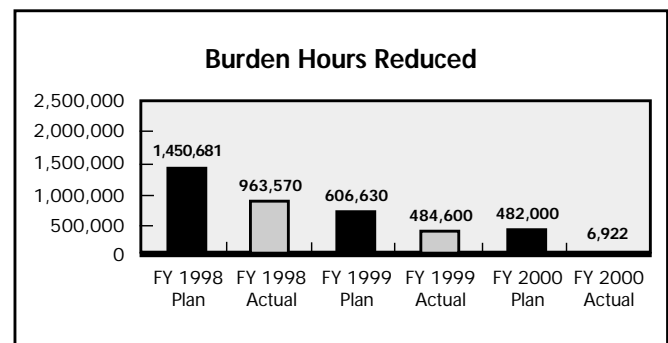
**Performance Measure:** Ratio of taxes and fees collected vs. resources expended.

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



**Performance Measure:** Burden hours reduced.

This measure reflects the reduction in hours required by ATF customers, e.g. FFLs, excise tax payees, etc., to complete standard ATF forms and comply with ATF regulations, including the preparation of forms.



An example of an unforeseen change impacting the goal occurred when Section 9302(j) of the Balanced Budget Act of 1997, called for a floor stocks tax on all cigarettes held for sale January 1, 2000. The requirement to make a record of physical inventories or a record inventory with appropriate source documentation, resulted in an increase in burden hours of 1.5 million.



## Program: Fully Implement the National Revenue Center (NRC)

Effective management of taxpayer accounts and proper receipt of tax returns and payments ensure that ATF accurately collects and reports all revenue receivables. The business processes performed by the employees and contractor personnel assigned to the National Revenue Center (NRC) in Cincinnati, Ohio, are essential to ATF's effective management of excise taxpayers' accounts and collection of receivables.

The principal activities of the National Revenue Center are:

- ❖ the audit of tax returns, claims, and reports;
- ❖ collection actions;
- ❖ review and approval of applications for permits;
- ❖ registration of plants and surety bonds; and
- ❖ custody of official case files.

During FY 2000, the NRC continued to consolidate business processes by reducing the number of Technical Services offices from two to one. The Philadelphia Technical Services office closed on June 30, 2000, with the San Francisco Technical Services office scheduled to close on December 31, 2000. During FY 2000, the NRC began processing all tax matters nationwide and is processing all permits matters except for California wholesalers and importers. NRC will assume permit matters responsibilities for these groups when the San Francisco Technical Services closes.

The NRC has made strides in the area of internally generated reports which allow monitoring the timeliness of taxpayers' filing of tax returns. The NRC is heavily involved in and very dependent on the electronic commerce initiatives which are discussed in more detail in a later section of this report. The FY 2001 initiatives most critical to the NRC include a pilot project to allow for electronic filing of tax returns through Treasury's Pay.Gov website; a project that allows industry members to electronically complete and submit qualifying documents and periodic reports.

*Conveyance area between distilled spirits bottling line and finished goods warehouse.*

## Program: Collect All Revenue that is Rightfully Due

ATF collected \$14.1 billion, before refunds, in taxes, interest, penalties, and fees in FY 2000. Ninety-six (96) percent of this revenue was derived from payments of alcohol [wine, distilled spirits, and malt beverages] and tobacco excise taxes. ATF's revenue management program includes a variety of processes and functions based on reviewing, auditing, and recording of tax returns, deposits, and operating reports. The program includes the accounting for all deposits and payments for taxes and fees from the alcohol, tobacco, firearms, ammunition, and explosives industries.

In FY 2000, ATF implemented new field inspection programs designed to target those operations that pose the greatest jeopardy to the revenue. During FY 2000, ATF conducted 1,347 inspections at revenue producing plants resulting in 1,371 violations detected, 1,534 tax adjustments, and \$4 million in additional tax revenue. ATF focuses its on-site inspections of alcohol, tobacco, firearms, and ammunition taxpayers to those facilities which pose the greatest risk to revenue. The factors considered include, among other things, volume of operations, compliance history, internal controls, and financial condition. A more detailed description of the various types and sources of revenues follows in the Financial Statements, Note 14, Non-exchange Revenue. The National Revenue Center and Technical Services continued to monitor tax collections by auditing tax returns; levying assessments; initiating enforced collection action; analyzing required reports; requesting field verifications; and accounting for tax payments and related refunds. During FY 2000, ATF processed 663 assessments and 9 offers-in-compromise resulting in \$1.67 million, and the suspension of 8 permits for a total of 547 days. Seventy-four (74) permits were revoked and two permit applications were denied.







*Distilled spirits bottling line.*

when, in fact, they are being diverted into the United States domestic market for sale (where there is tax liability). ATF's goal to ensure compliance with U.S. laws will greatly reduce the illegal diversion of alcohol and tobacco products. During FY 2000, ATF clarified requirements for the industry regarding the exportation of alcohol and tobacco products to prevent potential diversion of such products. These requirements were also posted on ATF's web page for easy access.

In addition to criminal penalties, ATF pursues tax assessments against domestic producers and individuals when ATF determines that the documentation supporting tax-free exportation of these products is counterfeit, inaccurate, or non-existent. During



*Various cases of cigarettes seized as a result of diversion investigations.*

FY 2000, a United States distiller was found smuggling distilled spirits disguised as windshield washer fluid and other solvents in the Ukrainian Republic and the Russian Federation. This distiller made restitution of \$1 million to the Ukrainian Republic, had its U.S. operating permit suspended for seven days, and submitted a \$1 million offer-in-compromise for the recordkeeping violations.

## **Diversion and Smuggling**

ATF is engaged in an ongoing effort to reduce a rising trend in the illegal diversion of cigarettes and distilled spirits products. Diversion activity generally occurs when legally manufactured or produced alcohol and tobacco products deviate from their normal legal distribution method to an illegal unregulated scheme. In the illegal schemes, the products are being diverted and sold in violation of Federal laws and regulations. Diversion activities also defraud the United States of tax revenue. For example, cigarettes and distilled spirits products are often fraudulently claimed for export markets (for which there is no tax liability)



*Seizure of 468 sixty-six gallon drums of grain neutral spirits headed for Luzern, Switzerland, with the required ATF paperwork altered.*

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

In FY 2000 the seizures of cash, vehicles, beverage alcohol, and tobacco products during diversion investigations by ATF agents, inspectors, and auditors resulted in over \$2 million being credited to the Treasury Asset Forfeiture Fund. In FY 2000, 125 diversion cases resulted in 70 defendants recommended for prosecution.



*Money seized during tobacco diversion investigation.*

During FY 2000, ATF conducted seven seminars with foreign governments and other U.S. Federal and State agencies on diversion of alcohol and tobacco products. ATF also assisted the Republic of Georgia and the Russian Federation by providing excise tax and diversion training.

As a result of the enactment of the Balanced Budget Act of 1997, ATF implemented regulations relating to the tobacco excise tax increase and restrictions on the importation of previously exported tobacco products and cigarette papers and tubes. Under the new regulations, only tobacco products manufacturers or export warehouses may receive such products. These products can only be destroyed or re-exported, or in the case of a manufacturer, re-packaged and removed for sale in the domestic market. The regulations prevent such products with export markings from entering the domestic market. During FY 2000, ATF conducted an investigation that disclosed an importation of cigarettes under these provisions resulting in

over \$250,000 in taxes which equates to five times the value of tobacco products imported.

## Program: Use Electronic Commerce

During FY 2000, ATF entered a partnership with the Financial Management Service (FMS) to develop methods for electronically filing ATF tax payments and returns, reports, and other forms. Many ATF forms are already available for downloading from the ATF website.

During FY 2001, ATF will pilot the electronic filing of tobacco tax returns and is working toward a project, to begin in the first quarter of FY 2001, that will allow seven tobacco industry members to file tax returns through Treasury's Pay.Gov website. If successful, ATF will expand the project to include other tobacco industry members and then to other regulated industries. This will reduce industry burden. The ultimate goal is to allow permittees and taxpayers to file all documents with the NRC online. Another initiative of the Pay.Gov website is to allow taxpayers to pay by credit card. While that is not part of the pilot project, it is anticipated that this option will be available by the end of FY 2001.

Customers interested in the requirements to qualify as a manufacturer of alcohol and tobacco use the ATF website as an early point of contact in seeking information. ATF has responded by answering questions, sending out application packets, and steering customers toward the proper state and local authorities.

# Protect the Public

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

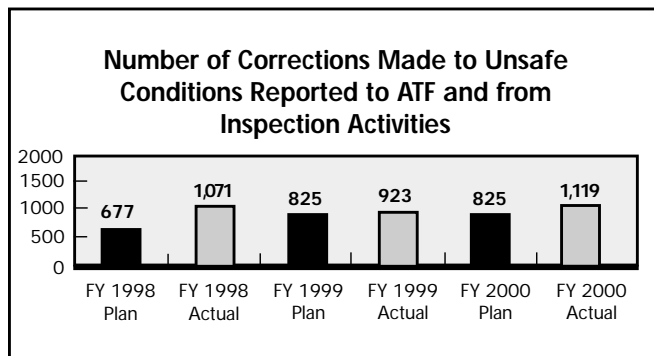
**Strategic Goal:** Protect the public and prevent consumer deception in ATF's regulated commodities.

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

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

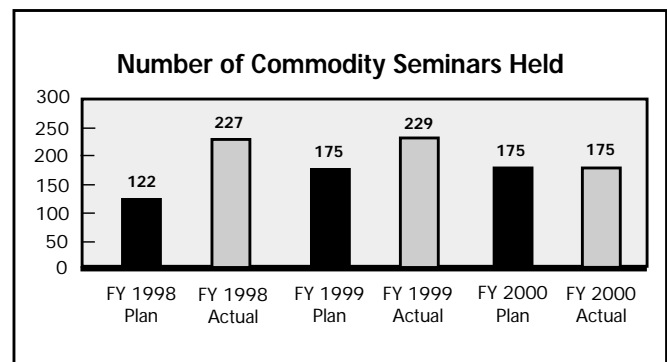
**Performance Measure:** Response to unsafe conditions and product deficiencies discovered (explosives).

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

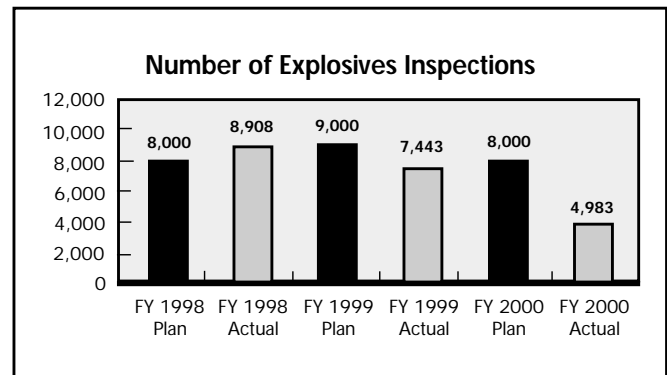


**Performance Measure:** The number of commodity seminars held.

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



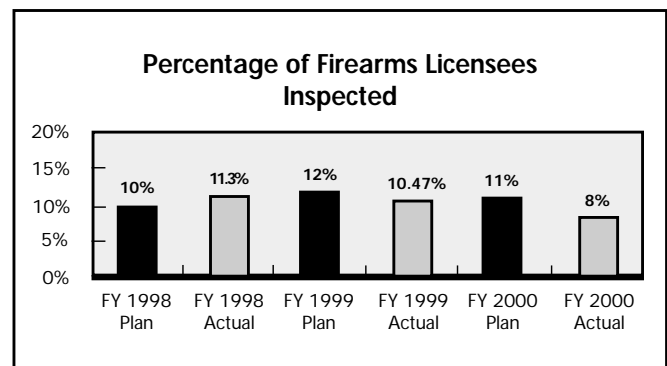
**Workload Measure:** Number of inspections (explosives).



In September, 1999, the FEA Directorate revised downward to 5,250 its previous estimate of the number of explosives inspections to be completed in FY 2000. The adjusted goal was established after a notable loss of experienced inspectors and the subsequent requirement to hire and train new inspectors. The available resources were concentrated on those licensees or permittees with previous public safety violations or history of non-compliance.

The explosives inspections completed in FY 2000, fell only 267 inspections short of the adjusted goal. This shortfall can be explained by the fact that during June and July of 2000, virtually all inspection resources were redirected to a major firearms inspection program initiative.

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



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

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

### Assuring Alcohol Product Integrity

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



*ATF chemist examines alcohol beverages submitted by ATF inspectors for analysis.*

Each year, through the alcohol sampling program, ATF collects alcohol products from the marketplace for analysis by ATF's laboratories. During FY 2000, ATF enhanced the alcohol sampling program by identifying new criteria, selecting seven cities and focusing sampling to imported and cultural products. During FY 2000, over 200 products out of 719 tested were found not to be in compliance due to labeling violations, over and under proof and fill violations, improper tax class classifications, and potability violations of non-beverage products where the methanol limitation was exceeded.



*ATF chemist analyzes a wine sample for possible adulteration.*

ATF also investigates consumer/other agency complaints regarding contaminated or adulterated beverage alcohol products. In FY 2000, ATF responded to 57 consumer complaints regarding alcohol products. Laboratory testing of the products disclosed no evidence of tampering or adulteration of the products. All cases resulted from natural occurring spoilage, crystallization due to age of product, or allergic reactions to sulfites.

ATF labs work closely with counterparts at the United States Food and Drug Administration, state laboratories, and regulatory agencies in many foreign countries. The laboratories exchange information on existing and new analytical methods and on product contamination or adulteration issues discovered by governmental laboratories, both domestic and foreign. This level of cooperation enhances ATF's proactive stance to ensure that contaminated or adulterated products do not reach the United States marketplace.

---

## Beverage Alcohol Labeling and Advertising

ATF is charged with protecting the consumer by preventing false or misleading claims on beverage labels and in advertising. ATF 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.

During FY 2000, ATF conducted two public hearings regarding health claims on alcohol beverage labels and in advertising. The hearings were held in Washington, DC and San Francisco, California, where ATF received feedback from industry and other interested parties. ATF will continue to analyze the public hearing transcripts and over 530 comments received from the notice of proposed rulemaking on this issue during FY 2001.



*ATF chemist analyzes imported products to assure conformance to U.S. regulations.*

With limited exceptions, ATF issues Certificates of Label Approval for all domestic and imported beverage alcohol products offered for sale in the United States. ATF processed approximately 69,000 new and amended label applications during FY 2000.

ATF remains committed to improving customer service for label and formula approvals. In FY 2000, ATF implemented the methods identified by the Beverage Alcohol Streamlining Team (BAST) with the goal of improving ATF business processes, thereby improving customer service. ATF created the Alcohol Labeling and Formulation Division in an effort to recognize the importance of the label and formula approval processes as one of four national ATF "customer service

centers" (with the National Revenue Center, the National Tracing Center, and the National Licensing Center) and to further meet the concerns of the regulated industry.

During FY 2000, ATF examined 65 alcohol advertisements that resulted in two investigations, ten corrections, and three withdrawals from the market. In addition, ATF settled nine trade practice, advertising, and labeling investigations. These investigations resulted in \$1.1 million accepted in compromise of the violations, and one five-day suspension of operations.

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

During FY 2000, ATF implemented the permit requirements for importers of tobacco products and manufacturers of roll-your-own tobacco, in accordance with the provisions of the Balanced Budget Act of 1997. ATF received 385 applications for tobacco importer permits during FY 2000. Alcohol and tobacco producers, wholesalers and importers of alcohol beverages, importers of tobacco products, 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; conducts investigations of high risk applicants; and determines eligibility for permits. Regulatory requirements are explained throughout the application process.

The Gun Control Act of 1968 mandates that every manufacturer, importer, or dealer in firearms, obtain a Federal firearms license (FLL). ATF conducts inspections of applicants for Federal firearm licenses. During these inspections, ATF inspectors explain the Federal firearm laws and regulations, and determine if the applicants are bona fide candidates for licenses.

Where inspection reveals conflicts with state laws and local ordinances, inspectors make referrals to the appropriate regulatory agency such as a zoning, occupancy, fire code, or law enforcement agency.

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

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

Once a person or entity is licensed or obtains a permit to conduct a regulated business, ATF monitors and enforces compliance with applicable laws and regulations. Inspections of firearms licensees focus on ensuring that firearms are properly accounted for. Licensees are selected for focused inspections when data from the NTC and other information indicate that illicit trafficking may be taking place. In the explosives industry, ATF emphasizes the safe and secure storage of explosives as well as accountability. ATF inspectors 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

ATF is responsible for enforcing the licensing provisions of Federal firearms and explosives laws and regulations. These laws mandate that every manufacturer, importer, or dealer in firearms or explosives obtain a FFL or explosives license, and that certain users of explosives obtain a Federal permit. The National Licensing Center (NLC) is responsible for issuing these licenses and/or permits.

Through its programs, ATF ensures that explosives are safely and securely stored - which is vital to public safety, curbing the illegal use of firearms and explosives, and enforcing Federal firearms and explosives laws. These public safety issues warrant the work of the NLC to issue firearms and explosives licenses/permits only to those individuals who are qualified to possess them. ATF will soon announce the launching of "FFL e-Z Check" - an online FFL authenticator service - that will aid the firearms industry in preventing the fraudulent use of their licenses by individuals altering a copy of the license to illegally acquire and supply firearms to criminals and youth. A firearms licensee will be able to verify or authenticate another firearms license prior to shipping or disposing of firearms to the licensee.

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 routine on-premises inspections, including focused inspections on problem areas throughout the United States.

During FY 2000, ATF conducted approximately 1,000 comprehensive compliance inspections of FFLs based on issues identified in ATF's February 2000 report entitled Commerce in Firearms in the United States. ATF inspected licensees who were either uncooperative with firearms traces or who had 10 or more firearms traced to them in 1999. As a result of these inspections, inspectors resolved more than 1,336 unsuccessful firearms traces and 24,101 inventory discrepancies, and identified nearly 500 licensees for adverse action as the result of regulatory violations.

ATF implemented procedures for routinely providing the Chief Law Enforcement Officer in each jurisdiction information on the status of FFLs 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

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

### Explosives Licenses/Permits and Inspections

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

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 minimize 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, ATF conducts the seminars with the state alcohol beverage control agencies to provide the total compliance enforcement picture to those in attendance. In FY 2000, ATF conducted 27 alcohol and tobacco seminars.

## National Firearms Act

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

## Firearms and Ammunition Importation

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

## Program: Inform the Public

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

## Industry and State Partnerships

ATF continued its liaison with other Government agencies working toward a common goal of ensuring safety in the explosives industry. In FY 2000, ATF specialists met with Department of Transportation (DOT) and Consumer Product Safety Commission (CPSC) representatives on issues of mutual concern. ATF also worked with the Department of Defense (DOD) and the Occupational Safety and Health Administration (OSHA) in developing or updating memoranda of understanding in the regulation of persons and companies in the explosive industry. Further, CPSC and DOT have been instrumental in providing instruction at the Advanced Explosives Training sessions. In addition, ATF continues to work with the Federal Aviation Administration regarding that agency's storage of explosives materials on or near airport property.

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

# Bureau-wide Programs

ATF continued to emphasize a strong and efficient organization in order to accomplish its programmatic goals effectively. The programs that support ATF's three major activities; Reduce Violent Crime, Collect Revenue, and Protect the Public, are highlighted below:





---

# TRAINING

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

## New Professional Joint Agent/Inspector Training

A record number of new ATF inspectors and special agents completed New Professional Training (NPT) at the ATF Academy. Joint agent/inspector training consisted of three weeks of training on topics of shared responsibility. NPT affords agents and inspectors the opportunity to build solid working relationships and to learn information uniformly relative to their collaborative responsibilities. At the conclusion of joint agent/inspector training, agents receive another ten weeks and inspectors another six weeks of occupation-specific training on technical issues. There were a total of 159 agents and 64 inspectors trained from October 1999 through September 2000, bringing the total number of inspectors trained to 143 and the total number of agents trained to 419 since NPT began in FY 1998.

## Other TPD FY 2000 accomplishments included the following:

- ❖ Provided over 500 weeks of in-service and/or out-Bureau training to ATF personnel;
- ❖ Continued to ensure the ongoing administration and completion of the Bureau's Critical Incident Management Divisional Training (CIMRT). This included the completion of joint training for the remaining six field divisions in the first quarter of FY 2000. In February 2000, the second phase of CIMRT Divisional training commenced and seven field divisions were trained separately in a more advanced CIMRT environment designed to adequately prepare personnel for field training exercises (FTXs) scheduled to begin FY 2002;

- ❖ Conducted Close Quarter Countermeasures (CQC) defensive tactics basic training for Bureau Headquarters agents and explosives enforcement officers (EEOs); conducted initial training for certified instructors with the goal of training every field agent and EEO by the end of calendar year 2000;
- ❖ Created the Use of Force Training Guide supplement which contains standard tactical lesson plans to ensure consistent training Bureau-wide;
- ❖ Provided 24 YCGII Training classes to 1,661 participants which included ATF, Federal, State and local law enforcement personnel;
- ❖ A joint Department of Justice-ATF Trafficking Seminar was presented to approximately 150 U.S. attorneys and State and local law enforcement officers. As a direct result of this effort, ATF experts now teach U.S. attorneys at the Advocacy Center, the types of assistance and analysis that ATF can provide in Federal firearms trafficking cases;
- ❖ Produced the video "Women in Federal Law Enforcement (WIFLE): Pioneers in Valor and Vision" for the 2000 WIFLE Conference and future ATF and other law enforcement recruitment efforts;
- ❖ Designed and delivered a Director of Industry Operations (DIO) training conference to 32 DIOs;
- ❖ Instituted and coordinated the Institute for Management Studies (IMS) initiative offering monthly; one-day leadership seminars to ATF managers of all levels in Headquarters and 17 field divisions nationwide;
- ❖ Planned and facilitated 11 CORE classes in Washington, DC, with 225 ATF employees attending.

### State, Local, and International Training:

- ❖ In concert with Bureau Field Offices and other Headquarters Directorates, TPD provided training to 87,859 other Federal, State and 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 number restoration;

- ❖ Provided international training courses to more than 850 participants, from more than 45 different countries, which included basic and advanced firearms and explosives identification, post-blast investigation, and alcohol and tobacco diversion;
- ❖ Delivered Seminar in Explosives and Bomb Threat Management (SEMTEX) at two U.S. airports (one in San Juan, Puerto Rico) to more than 500 law enforcement and airline/airport security personnel;
- ❖ Conducted the fourth annual International Firearms Trafficking Seminar in Niagara Falls, Canada. Because of its caliber, the course is mandatory training for all personnel in several Canadian law enforcement departments.

## SCIENCE AND TECHNOLOGY

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

### Information Infrastructure

ATF modernized its IT through deployment of the Enterprise Systems Architecture (ESA), an infrastructure that ensures that 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.

ESA supports approximately 4,100 employees and 1,200 contractor workstations nationwide. Field personnel, i.e., agents, inspectors, and auditors, use notebook PCs with docking stations; and employees and contractor personnel assigned to offices are equipped with desktop PCs. 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

A Frame Relay Network Upgrade Project was undertaken to design, coordinate, implement, and test the upgrade of the entire wide area frame relay network. While transparent to the ATF user community, this upgrade increased minimum bandwidth of ATF's wide-area network from 32 kilobytes (kbs) to 128 Kbs to approximately 200 ATF points of presence in the continental United States. The upgrade provided ATF with the ability to place into production and support many significant software engineering investments such as ATF's National Field Office Case Information System (N-FOCIS), Forensics Automated Case and Exam Tracking System (FACETS), Firearms Tracing System (FTSWEB), and Online-LEAD. This upgrade has also enabled applications such as Exchange Mail and Tivoli to function reliably on the wide-area network. The re-engineering effort provides backup and enhanced stability of the network. The project was a major success by implementing state-of-the-art applications through the network in support of ATF's mission activities.

### Laboratory Services

In FY 2000, Laboratory Services, with the support of ATF's Office of Training and Professional Development and the Association of Firearm and Toolmark Examiners (AFTE), graduated the first class of the ATF National Firearm Examiner Academy. In addition, the second class commenced in July 2000. With full Laboratory Services support, AFTE implemented the first professional certification program for Firearm and Toolmark Examiners. ATF examiners assisted in developing the testing procedures.

Laboratory Services continued its support and leadership in partnerships with the University of Central Florida (arson and explosives methods); the University of Maryland (fire research center development); and the U.S. Customs Service (imported tobacco product authentication).

Laboratory Services developed new analytical approaches for supporting alcohol and tobacco diversion and smuggling investigations and have used them successfully in critical investigations. In FY 2000, Laboratory Services personnel completed 2,682 forensic cases, analyzed 6,052 alcohol and tobacco product samples and processed 8,500 alcohol product formula applications. Personnel also provided 282 days of instruction to ATF and other Federal, State and local law enforcement agencies; spent 184 days providing expert testimony in courts of law; and spent 239 days providing scientific advice and support at ATF-investigated crime scenes.



*ATF chemist prepares wine for heavy metal analysis.*



*An imported cigar is measured to assist in product classification.*

## **Audit Services**

The Audit Services Division (ASD) continues to provide an important investigative link in both criminal and regulatory enforcement investigations such as arson and bombings-for-profit, alcohol and tobacco diversion, firearms and drug trafficking cases, gang-related activities, and money laundering schemes. In addition to these investigations, ASD has worked closely with inspectors on regulatory investigations in the revenue program area, specifically on National Brewery Audits performed during FY 2000.

An important enhancement to ASD during FY 2000 was the implementation of a Financial Investigation Information Repository. ASD designed and implemented an information repository to warehouse the tacit knowledge (real-life experiences) of forensic auditors with the goals of providing more efficient training and standardizing forensic accounting and

auditing investigative practices. This repository also categorizes the type of financial investigations performed in order to accumulate and segregate the similarities and differences unique to each financial investigation.

## **Technical Support**

Technical support to field agents and inspectors is provided by the Technical Support Division which comprises the Technical Operations Branch (TOB), the Radio Branch, and the Visual Information Branch.

TOB has three sections: the Electronic Surveillance/Technical Surveillance Countermeasure Section, the Computer Forensics

Section, and a Logistics Section. TOB purchases investigative equipment, investigative supplies, agent safety equipment including body armor, law enforcement vehicles, and electronic surveillance equipment. TOB evaluates new technology, and trains tactical operations officers and technical enforcement officers.



*Mobile state-of-the-art van makes the tactical officers' job easier by providing the equipment needed in the field.*

---

The Computer Forensics Section provides trained personnel who extract information from seized computers and assist in computer crime and Internet investigation. In FY 2000, the Computer Forensics Section trained an additional ten Computer Investigative Specialists in the Basic Evidence Recovery School and 12 Computer Investigative Specialists in the Advanced Evidence Recovery School, where they were introduced to Linux Operating Systems and network techniques.

The Radio Branch provides a national wireless communications system, managed by a network of deployed radio technicians who maintain the ATF Radio infrastructure and provide tactical communication assistance.

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

## LIAISON AND PUBLIC INFORMATION

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

ATF continues to expand the use of its Internet site to include ATF and Treasury reports, special notices to industry members, and FFL eZ-Check access to FFL verification. ATF has also launched the Nibin.gov website to serve as a entry point for the public and a resource to the law enforcement community on the National Integrated Ballistics Information Network. One highlight for the year was the number of television shows that featured ATF employees. The Discovery Channel, the History Channel, and A&E showed ATF's investigative work in various shows.

The ATF website is fully accessible to the handicapped and meets the requirements of Section 508. The website continues to grow in its use by the public, industry members, Congress, and the media. Visits to the site average 150,000 per day. The number of email inquiries are approximately 15,000 for FY 2000.

: Over 4,000 special agent and 3,000 inspector-related e-mail inquiries were received for positions that were advertised on the ATF Internet and OPM Job sites.

: The ATF IntraWeb is an internal "bulletin board" designed to provide daily updates and other information that employees need to do their jobs. The site is also linked to the Treasury IntraWeb. An Ethics site was added this year to provide online resources and opinions to employees on various ethics related issues.

## INSPECTION

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

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

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

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

## SPECIAL OPERATIONS

During FY 2000, 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. Additionally, 130 pre-employment polygraph screening exams were conducted this fiscal year.

The National Communications Center/Enforcement Operations Center provides Bureau-wide tactical communications and record communications support and access to various law enforcement information data bases. During FY 2000, the National Communications Center/Enforcement Operations Center received and assisted in 177 hotline calls, 854 Federal firearms licensee calls, and 67 National Response Team/Special Response Team callouts. Additionally, this Branch processed 4,021 National Instant Criminal Background Check System (NICS) referrals. Furthermore, this Branch entered 1,927 ATF wanted persons into NCIC, and 1,814 ATF wanted persons were arrested and cleared from NCIC. Finally, the Branch received a total of 68,430 telecommunications messages from ATF, other law enforcement agencies, and various worldwide communications centers.



*Special agents participating in a Critical Incident Management Support Team activation.*

The Critical Incident Management Branch is comprised of the Critical Incident Management Section and the Tactical Response Section. The Critical Incident Management Section coordinates ATF's preparation for critical incidents. The Section also coordinates the activities of the Critical Incident Management Response and Support Teams as well as assisting in the



*A special agent conducts business in the Emergency Operations Center.*

training for both field and Headquarters personnel. Further, this Section manages the Crisis Negotiations Program, which is comprised of special agents specially trained to communicate with subjects causing volatile or threatening situations.

The Tactical Response Section oversees the Special Response Teams (SRTs) and the ATF Operational Medical Support Program, and monitors the division tactical advisors (DTAs). ATF's five SRTs are comprised of highly trained special agents who conduct "high risk" operations, including arrests, search warrants, undercover operations, and protection details. The SRTs also assist in providing tactical training. During FY 2000, the SRTs were activated a total of 84 times and were involved in 119 operations. The ATF Operation Medical Support Program consists of specially trained special agents capable of providing advanced and basic life support. The DTAs are tasked with providing standardized tactical direction to ensure that the most current and safe tactics are being employed as well as serving as advance planning assets to division personnel for non-SRT operations.

The Enforcement Support Branch oversees the following ATF programs: airborne operations, coordination of special event/major event support (e.g. 2002 Winter Olympic Games, NATO 50 celebration, Republican and Democratic National conventions), protective mission support to the U.S. Secret Service and State Department, participation in gang enforcement programs and conferences, coordination of the Interagency Crime Drug Enforcement (or OCDETF) Task Force program, the Victim/Witness Assistance program, Federal deputation through the U.S. Marshals Service, loss/theft of agent cashier funds reporting, maintenance of Emergency Expense Fund, and coordination of requests from the field for Department of Justice and Office of Enforcement Operations services (e.g. Witness Security Program, international prisoner

transfer program, S-Visa applications, use of Federal inmates in investigations).

## STRATEGIC INTELLIGENCE

The critical tool of strategic intelligence support remains a vital force multiplier by which ATF successfully accomplishes its strategic goals of Reducing Violent Crime, Collecting Revenue, and Protecting the Public. Major milestones reached in FY 2000 were:

### ❖ Field Intelligence Capability Expansion

In FY 2000, ATF continued developing Field Division Intelligence Groups at each of its 23 Field Divisions strategically located throughout the United States. These Intelligence Groups meld the training and experience of special agents, intelligence research specialists, industry operations inspectors, and support staff who focus on providing tactical intelligence support for their respective field divisions and their external law enforcement partners. FY 2000 saw the selection of supervisory special agents to head each Field Intelligence Group. The Intelligence Group Supervisors are coordinated by, and work in conjunction with, the Intelligence Division to form a Bureau-wide intelligence infrastructure. During FY 2000, the Intelligence Division provided indoctrination and training for all Field Intelligence Group Supervisors, Intelligence Officers, and Intelligence Research Specialists.

### ❖ Partnerships

ATF maintains intelligence partnerships with the National Drug Intelligence Center (NDIC), El Paso Intelligence Center (EPIC), Financial Crime Enforcement Network (FinCEN), Interpol, the Federal Bureau of Investigation Counter Terrorism Center (FBI/CTC) and other international intelligence sources. Furthermore, ATF maintains a Memorandum of Understanding (MOU) 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 external partners are a key component of ATF's Strategic Intelligence Plan and the means by which ATF ensures a maximum contribution to the nation's law enforcement and intelligence communities.

During FY 2000, the Intelligence Division spearheaded the formulation of a MOU with the FBI concerning collaborating on investigations conducted by Joint Terrorism Task Forces located throughout the United States. This MOU brings to bear ATF's unique knowledge and skills of explosives and firearms violations to

bear in conjunction with the FBI's expertise in terrorism.

### ❖ Technological Advancements

In FY 2000, Phase 1 of a multi-phased, state-of-the-art automated case management/intelligence reporting system entitled N-FOCIS (National Field Office Case Information Systems) continued to receive minor enhancements. N-FOCIS comprises two companion applications: N-FORCE for special agents and N-SPECT for industry operations inspectors. Both eliminate redundant manual data entry on hardcopy forms and provide a comprehensive reporting and information management application in a secure electronic environment.

N-FOCIS constitutes an on-line case management system and electronic central information repository that allows ATF to analyze and fully exploit investigative intelligence. N-FOCIS epitomizes the strength and unique value of ATF's combined criminal and industry operations enforcement missions. During FY 2000, the Intelligence Division provided in-service training to many of ATF's 23 field division special agents, investigative assistants, and inspectors on the use of the N-FOCIS applications. ATF is planning to expand the N-FOCIS functionality and to integrate N-FOCIS with several key ATF applications including the National Revenue Center, the National Tracing Center, National Arson and Explosive Repository, and the Intelligence Division's Text Management System. This integration plan establishes N-FOCIS as the Bureau's information backbone supporting its Strategic Goals.

In FY 2000, the Intelligence Division played an integral role in the development of the computer application N-Quire. N-Quire is a relational database that will replace the Advanced Serial Case Management system (ASCMe) as the Bureau's primary lead tracking system, and is a component of N-FOCIS. N-Quire will be integrated with ATF's investigative reporting system, N-Force. It will offer ATF personnel a cutting-edge case management tool that retains all the functionality of ASCMe, but in an intuitive, user-friendly format. This year, Intelligence Division personnel worked alongside computer programmers at every stage in the development of N-Quire, ensuring that it would meet the demanding, specific needs of the ATF investigator and analyst. N-Quire will be available to the field by mid-FY 2001.

### ❖ Accomplishments

Noteworthy accomplishments during FY 2000:

- Assisted the Department of Energy (DOE) with on-site threat assessments of seven special nuclear materials facilities across the United States;

- Reviewed over 107,000 intelligence community electronic messages;
- Assumed a lead role in the National Violence Against Health Care Provider Task Force wherein 1,566 investigative leads have been analyzed since the Task Force's inception in December 1998;
- Developed and presented intelligence training curriculum to all ATF Intelligence Group Supervisors, Intelligence Officers, Intelligence Research Specialists, newly hired special agents and inspectors undergoing New Professional Training, all personnel undergoing alcohol and tobacco diversion investigation training, all special agent supervisors at the first-line and mid-management level, and all personnel undergoing Critical Incident Management and Response Team training;
- In FY 2000, a Knowledge Management (KM) initiative was begun in ATF. This initiative involves the web-enablement of all mission-critical databases to provide "need to know" access to ATF employees and customers as appropriate. ATF has established three employee-accessible pilot KM modules on the ATF IntraWeb in Audit Services, Arson Investigations, and Alcohol and Tobacco Diversion Investigations for those areas of expertise. As these pilots prove successful, ATF will develop KM modules for other ATF expert communities of interest in FY 2001.

## Operation Security (OPSEC)

The most significant event for the ATF OPSEC Program Office this year was the arrival and appointments of new OPSEC Officers. Out of the six selected, four have reported and are active in ATF operations. During the past year, the OPSEC Office has been involved in three major cases providing Threat and Vulnerability assessments and performing its primary duty as operational OPSEC Advisory to each Incident Commander. During the duration of each of these cases, the OPSEC Office, in concert with Special Operations Division, Intelligence Division and the primary field division, successfully executed enforcement operations on three Outlaw Motorcycle Organizations. These operations were of the largest magnitude in ATF's history. During these operations, no ATF personnel were injured, no suspects were seriously injured and no operational information was leaked to compromise the operation.

With the support of Division Directors and the training and education conducted by the OPSEC Office, request for OPSEC support has increased by over 150%. With the appointment of the new Regional OPSEC Officers, ATF anticipates that this number will better than triple during FY 2001.

ATF maintains the highest standard for OPSEC in Federal law enforcement and has set the example of how an OPSEC Office should function in support of operations.

## LEGAL

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

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

ATF currently has attorneys in 16 of 23 field divisions and plans to have all field divisions staffed with attorneys by FY 2003. The integration of legal services into the field structure will serve ATF well while countering the ever-increasing challenges presented by ATF's mission.

## MANAGEMENT

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

In FY 2000, OM continued its focus on operating in a fiscally sound manner, meeting external mandates, protecting Bureau resources, and improving customer service. Specific accomplishments include:

### ❖ Audit Opinion

Led the effort that resulted in ATF receiving an Unqualified Audit Opinion for the sixth consecutive year;

### ❖ Conversion of Finance System

Completed the first full year converting ATF's financial system from a mainframe to client-server environment and deploying of the system to over 500 users nationwide. This conversion moved ATF closer to its financial management vision

of 100% electronic transaction processing, real time financial data, and integration with other major systems. This conversion provides:

- electronic requisitions, reprogramming of funds, goods and services receiving reports, and travel funds commitments;
- email notification of payment to ATF employees and vendors;
- electronic submission of payment data to the Treasury disbursing agency versus creating a tape and sending it Federal Express to Philadelphia, Pennsylvania, to generate payments; and
- elimination of paper statements associated with Small Purchase credit card transactions and daily draw downs against budgets.

❖ **Implementation of the Civil Asset Forfeiture Reform Act of 2000**

With the enactment of the Civil Asset Forfeiture Reform Act in April 2000, OM lead the effort to provide training to 23 field divisions by first conducting a train-the-trainers conference. Providing additional support to the trainers resulted in the successful training of special agents and attorneys in the field prior to the August 2000 effective date of implementation of the Act.

❖ **Human Resources**

Hired 208 new agents; 54 have been cleared and are ready to report in FY 2001; and 116 are awaiting clearance. In addition, under new hiring procedures, over 1100 applicants took the Treasury Enforcement Agent Examination during the fiscal year; 760 passed and are eligible to advance in the hiring process.

❖ **Construction of the Canine Training Facility**

Completed the construction of a new Canine Training Facility, which provides state-of-the-art facilities for training ATF handlers and canines. The 24,000 square-foot facility located in Front Royal, Virginia, houses a staff of 21 personnel.

## Financial Results, Position and Condition

### Overview of Financial Data

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

A number of enhancements were made during FY 2000 to comply fully with 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, the Federal Financial Management Improvement Act of 1996, and a number of GSA-mandated travel regulation changes. ATF completed its financial system conversion from a mainframe to client-server environment. The Bureau converted all ATF cardholders to a new Treasury-wide credit card program, standardized its expenditure categories to meet Treasury-wide requirements, and enhanced its cost accounting to incorporate payroll expenditures down to Bureau programs and project levels.

ATF continues to make progress in implementing Federal financial management reforms and incorporating advances in information management technology into its processes. This has contributed to ATF again receiving an unqualified audit opinion from PricewaterhouseCoopers LLP for FY 2000.

### Budget Integrity

#### Sources of Funds

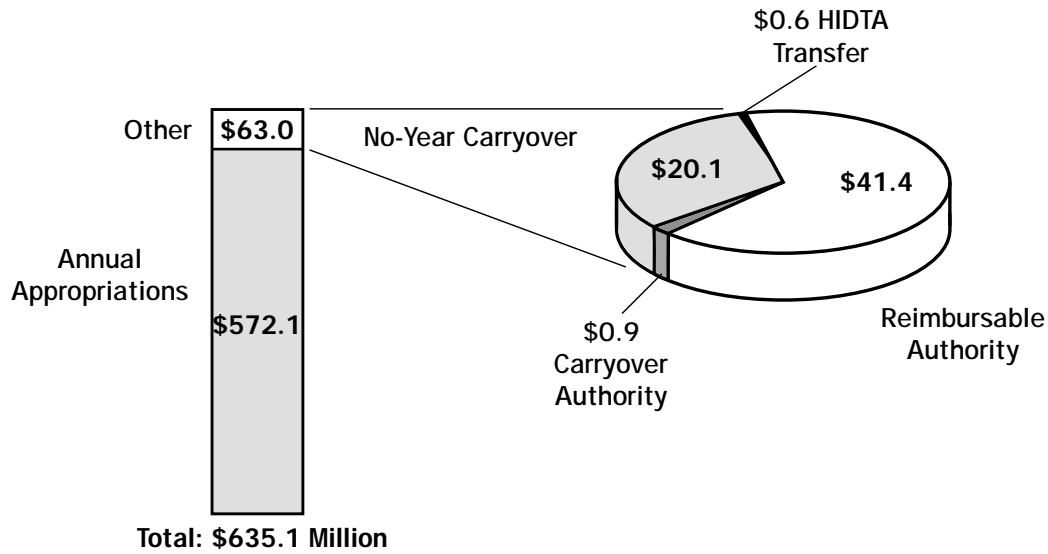
The total budget authority available for use by ATF in FY 2000 was \$676.0 million. Of that amount, the Congress appropriated \$566.0 million for the Bureau's Salaries and Expenses Fund and \$40.9 million for the Violent Crime Reduction Trust Fund. An additional \$69.1 million was made available from other sources. These other sources included the following: no-year carryover funds of \$19.6 million; appropriation trans-



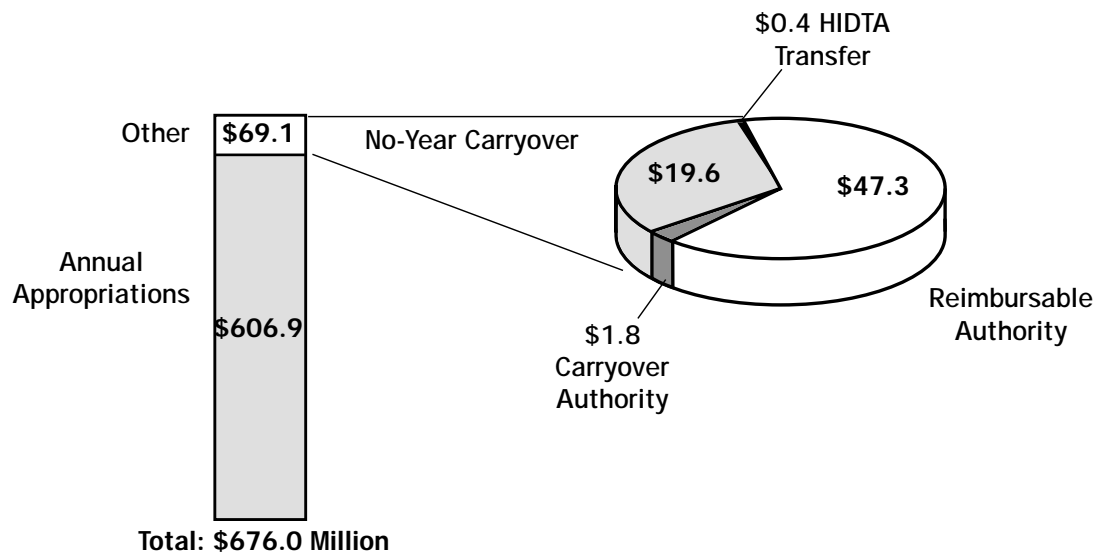
fers of \$.4 million from the Office of National Drug Control Policy to support ATF efforts in High Intensity Drug Trafficking Areas (HIDTA); \$47.3 million in

; reimbursable authority from other Government agencies; and \$1.8 million, which represents 50 percent of the FY 1999 unobligated balance.

### Sources of Funds FY 1999 (Dollars in Millions)



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



**Uses of Funds**

ATF incurred obligations of \$654.5 million during FY 2000. Of the \$16.7 million in budget authority that was not obligated in FY 2000, \$3.8 million represents the Bureau's Salaries and Expenses; \$.05 million represents HIDTA funding; and \$12.83 million represents no-year appropriation carryover funds available for use in FY 2001. The aforementioned funds include \$.03 million transferred to the Department in support of the Honors Attorney Program; \$2.56 million transferred to the US Secret Service,

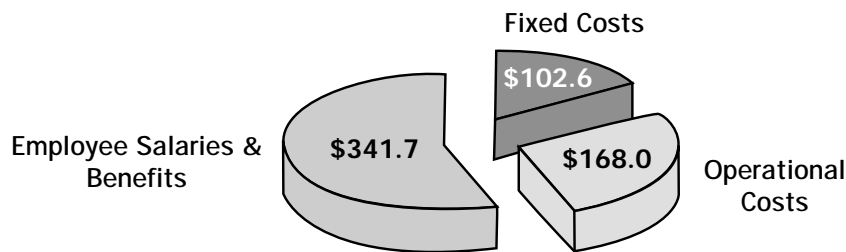
of which \$1.8 million was from prior-year unobligated funds and \$.7 million from No-year funds; \$1.1 million representing the rescission of No-year funding and \$1.2 million representing the rescission of Salaries and Expenses.  
 In FY 2000, the Bureau's full-time equivalent (FTE) level increased by 309 FTE. This increase was the basis for a corresponding increase in salaries and benefits and fixed costs; thus, a decrease in operational costs.

**Uses of Funds**

**FY 1999**

**(Dollars in Millions)**

**Total: \$612.3 Million**

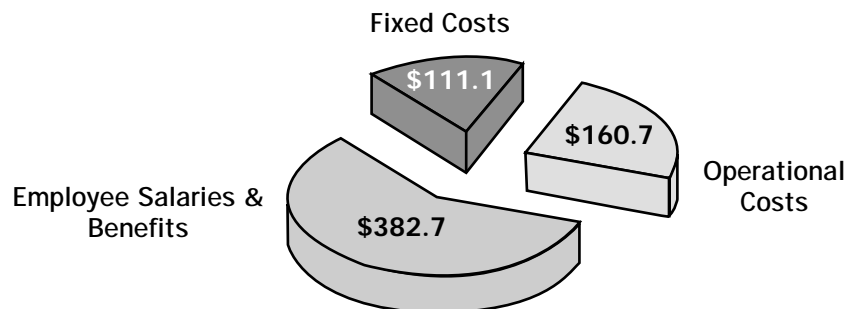


**Uses of Funds**

**FY 2000**

**(Dollars in Millions)**

**Total: \$654.5 Million**

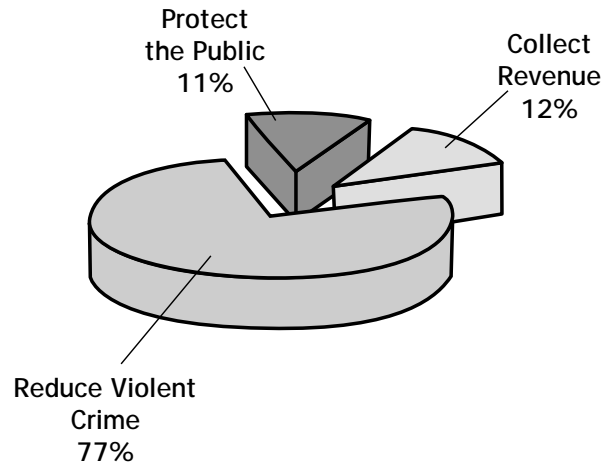


## Cost Accounting and Performance Measurement

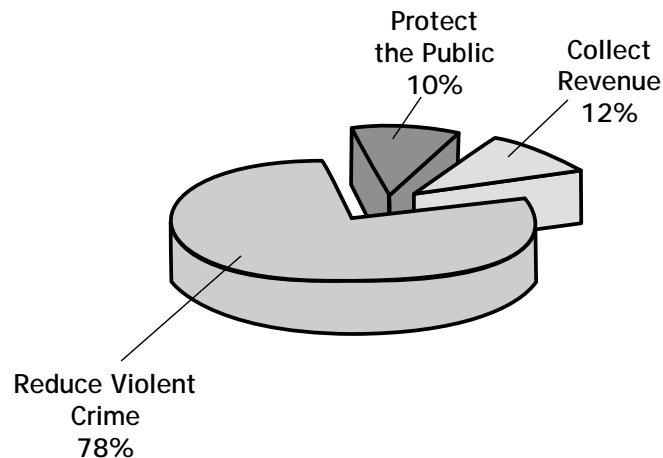
ATF continued its multi-year effort to develop and implement a Bureau-wide planning and reporting framework in the cost accounting and performance measurement area. In FY 1998, ATF implemented a new cost structure and laid the groundwork to standardize the cost structure for all Bureau systems that capture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

- utilized in developing ATF's FY 2001 and 2002 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.
- During FY 2000, the Bureau furthered its implementation of Cost Accounting requirements by having employees directly charge their time against the Bureau's activities at the project level in a new standardized time reporting format.

### Cost by Activity FY 1999



### Cost by Activity FY 2000



## Financial Performance

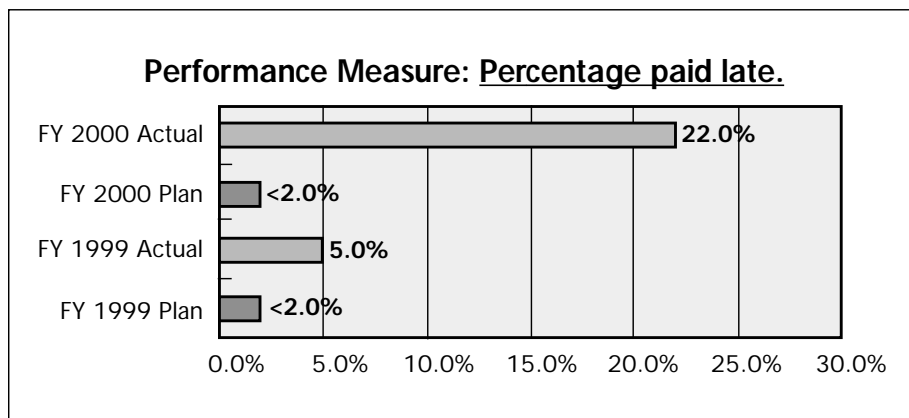
ATF's annual financial management performance plan contains key financial performance indicators. There are three major activities identified in ATF's Financial Management Performance plan. These activities are: 1) provide leadership to promote the acquisition and management of ATF's resources, revenue, and assets; 2) provide quality financial services; and 3) provide financial information on ATF operations that supports reporting and decision making. Strategic goals, annual performance goals, and measures were developed to achieve these three financial management activities. Several of the key goals and measures in the FY 2000 Financial Management Performance Plan are displayed below.

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

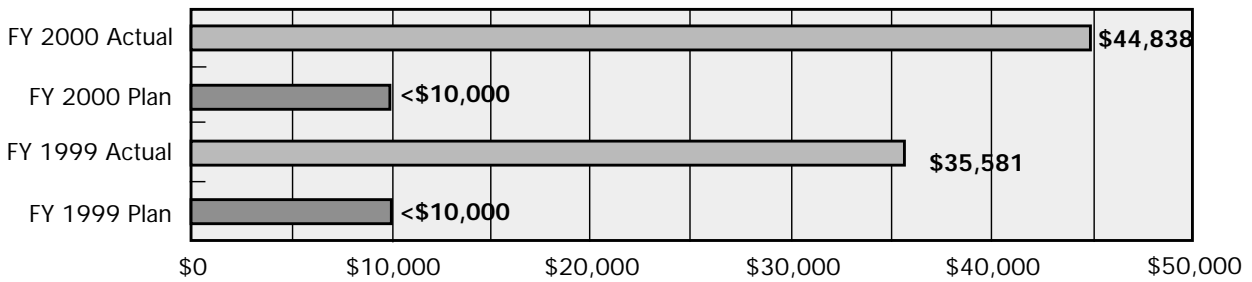
**Strategic Goal:** Focus on customer service and innovate financial processes.

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

In FY 2000, the Bureau's annual delinquent rate increased to 22.0 percent, from 5.0 percent in FY 1999. At the beginning of FY 2000, ATF converted from a mainframe-based financial management system to a client-server system. The conversion decentralized many centralized accounting features and impacted payments. The Treasury benchmark is 2 percent, which ATF will strive to meet in FY 2001.

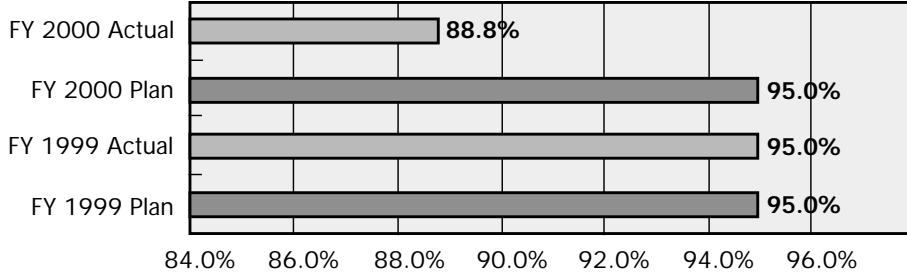


**Performance Measure: Dollar amount of interest paid.**



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

**Performance Measure: Percentage of vendors paid via EFT.**



Note: Total number of vendor payments in FY 2000 was 11,822.

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

Strategic Goal: Provide complete and accurate financial statements.

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

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

2000 Plan: Unqualified Opinion  
2000 Actual Results: Unqualified Opinion

**Cash Management**

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

❖ **Debt Collection Improvement Act Compliance.**

This act requires the use of electronic funds transfer for all Federal payments made after January 1, 1999.

*Vendor payments:* In FY 2000, ATF paid 89 percent of its vendors electronically, seven percent less than in FY 1999. ATF attributes the drop in EFT payments to the system conversion that resulted in several payment configuration issues. For example, ATF lost the ability to make lump-sum payments to some of its vendors, who were consequently paid via check.

*Employee payments:* ATF processes travel payments 100 percent electronically within one week of receiving a completed travel voucher. The significant reduction in process time ensures that travelers receive reimbursement in their bank accounts within four to eleven days after submitting vouchers. Nearly all of ATF's employees receive salary payments via electronic funds transfer.

- ❖ **Collection Mechanisms.** ATF uses the automated FEDWIRE Deposit System and ACH Remittance Express Program to collect alcohol and tobacco excise taxes from taxpayers who pay more than \$5 million in taxes per calendar year. In addition, ATF uses lockboxes provided through the Treasury lockbox network to collect other excise taxes, firearms license and permit fees, and Special Occupational Taxes.

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

- ❖ **Credit Cards.** In FY 1999, ATF implemented the new government-wide credit card program, with Citibank as its vendor and MasterCard as its brand. ATF has over 3,500 purchase cardholders who use the card primarily for small purchases (under \$2,500). In FY 2000, cardholders purchased goods and services in excess of \$14 million with the cards. Over 4,200 ATF employees have travel cards for use while on official government travel; In FY 2000, these individuals used their travel cards to cover travel and transportation expenses in excess of \$23 million.
- ❖ **Imprest Funds.** ATF closed all miscellaneous imprest funds nation-wide at the end of FY 1999 and is encouraging employees to use the purchase card whenever possible. ATF cardholders are authorized to write convenience checks against their purchase cards. In FY 2000, these cardholders used convenience checks to purchase over \$218,000 in goods and services.

### **Limitations of the Financial Statements**

The financial statements were prepared to report the financial position and results of operations pursuant to the requirements of 31 U.S.C. 3515(b). The statements have been prepared from the books and

records of ATF according to formats prescribed by the Office of Management and Budget. The statements are in addition to the financial reports used to monitor and control budgetary resources prepared from the same books and records. The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity. One implication of this is that liabilities cannot be liquidated without legislation that provides resources to do so.

### **Management Responsibilities**

Bureau management is responsible for the fair presentation of information contained in the principal financial statements, in conformity with generally accepted accounting principles (GAAP) and the form and content for entity financial statements specified by the Office of Management and Budget (OMB) in OMB Bulletin 97-01. Management is also responsible for the fair presentation of ATF's performance measures in accordance with OMB requirements. The quality of the Bureau's internal control structure rests with management, as does the responsibility for identification and compliance with pertinent laws and regulations.

# Systems and Controls

## Financial Systems

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

### The following were financial management system accomplishments in FY 2000:

- ❖ Continued the rollout and stabilization of the Bureau's new financial system;
- ❖ Implemented four electronic interfaces with core system;
- ❖ Reconciled and closed out the conversion of five years of historical data;
- ❖ Completed baseline implementation, including:
  - Payroll Interface;
  - Additional Reports;
- ❖ Completed documentation of Time & Attendance system requirements;
- ❖ Began phased implementation of new Human Resources system.

### FY 2001 Plans:

- ❖ Upgrade financial system software and hardware;
- ❖ Configure automated financial statements;
- ❖ Document Space Management and Property System interface requirements;
- ❖ Conduct new user and refresher training;
- ❖ Implement Fleet Card Program with interface to the core financial system;
- ❖ Increase number of financial system users in Bureau program offices;
- ❖ Identify integration requirements for Revenue systems;

- ❖ Continue phased rollout of HR system.

### Integrated Tax Collection System

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

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

### FY 2000 accomplishments:

In late FY 1999 and early FY 2000, ATF deployed Year 2000 date compliant applications on an Oracle based client-server architecture for the legacy revenue systems that had been on a mainframe platform. After defining a priority listing of issues which had the potential to impact adversely the findings of out-year CFO Act reviews, we expended additional maintenance funds for solutions to these issues. As part of the systems development life cycle process, ATF contracted for a feasibility study, cost/benefits analysis, and project planning efforts for the Revenue Systems Integration project. In addition, ATF prepared the business case for an e-Government initiative in FY 2002. The business case presented to ATF's Investment Review Board and to the Department of Treasury's Capital Investment Review Board, has been well received and is moving forward for funding in FY 2002. ATF would use the e.Government initiative to pilot the Pay.gov which is being developed by Treasury's Financial Management Service. The initiative would allow ATF to comply with the October 21, 2003 mandate of the Government Paperwork Elimination Act and would result in improved customer service.

### FY 2001 plans:

ATF will continue its efforts to resolve deficiencies identified in CFO Act reviews of currently deployed revenue applications. In addition, with the findings and recommendations of the systems integration study, ATF hopes to address the requirements and design phases of revenue systems integration.

## **Federal Managers' Financial Integrity Act (FMFIA) Summary**

### **Annual Assurance Statement for FY 2000**

ATF has evaluated its management controls and financial management system for the fiscal year ending September 30, 2000, as required by the Federal Managers' Financial Integrity Act (FMFIA) of 1982 and the Federal Financial Management Improvement Act (FFMIA) of 1996. ATF provides a "reasonable assurance" that the objectives of FMFIA (both Sections 2 and 4) have been achieved and believes that it is in "substantial compliance" with the FFMIA. As a result, there is a reasonable assurance that (1) obligations and costs are in compliance with applicable laws and assets are safeguarded; (2) operational revenues and expenditures are properly recorded and accounted for; (3) accounting systems conform to the Comptroller General's accounting principles and standards; and (4) sound business practices are used to manage Bureau resources. In addition, ATF has implemented and maintained financial systems that comply substantially with Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level.

### **FMFIA Highlights**

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

arise from the Bureau's audit and its management and internal control environment.

### **2000 FMFIA STATUS**

ATF's FY 2000 annual statement of assurance indicated that the Bureau could reasonably assure that:

- (1) obligations and costs are in compliance with applicable laws and assets are safeguarded;
- (2) operational revenues and expenditures are properly recorded and accounted for; and
- (3) accounting systems conform to the Comptroller General's accounting principles and standards.

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 2000.

### **Policies and Procedures**

In FY 2000, the Bureau resolved two of the three reportable conditions from FY 1999. The remaining reportable condition requires the further strengthening of controls to protect information. Due to the sensitive nature of this finding, ATF is unable to provide additional information.

### **Monthly Accountability Plan**

The Monthly Accountability Plan (MAP) continued in FY 2000 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.



# Auditor's Report on Financial Statements



PriceWaterhouseCoopers LLP  
1616 North First Street Drive  
Arlington, VA 22209-3195  
Telephone: (703) 741-1000  
Facsimile: (703) 741-1616

## REPORT OF INDEPENDENT ACCOUNTANTS

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

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

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

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

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

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



Report of Independent Accountants  
Page 2

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

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

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

January 19, 2001  
Arlington, Virginia



PriceWaterhouseCoopers LLP  
1616 North First Street Drive  
Arlington VA 22209-3193  
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

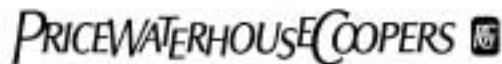
We have audited the financial statements of the Bureau of Alcohol, Tobacco and Firearms (ATF) as of and for the year ended September 30, 2000 and 1999, and have issued our report thereon dated January 19, 2001.

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

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

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

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



Report on Internal Control  
Page 2

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

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

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

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

\* \* \*

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

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

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

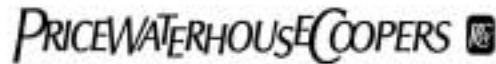


Report on Internal Control  
Page 3

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

*PricewaterhouseCoopers LLP*

January 19, 2001  
Arlington, Virginia



PricewaterhouseCoopers LLP  
1616 North Fort Meade Drive  
Arlington, VA 22209-3191  
Telephone: (703) 741 1000  
Facsimile: (703) 741 1616

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

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

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

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

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

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

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

January 19, 2001  
Arlington, Virginia

Department of the Treasury  
**BUREAU OF ALCOHOL, TOBACCO AND FIREARMS**

BALANCE SHEET

As of September 30, 2000 and 1999

	2000	1999
(In Thousands)		
<b>ASSETS</b>		
<b>Entity Assets</b>		
<b>Intragovernmental Assets:</b>		
Fund Balance with Treasury	(Note 2)     \$ 205,950	\$ 191,532
Accounts Receivable	(Note 3)     23,326	27,849
Prepayments	8,686	6,251
<b>Total Intragovernmental Assets</b>	237,962	225,632
Cash	(Note 2)     2,136	2,291
Property and Equipment, Net	(Note 4)     95,754	90,776
Other Assets	(Note 5)     782	389
<b>Total Entity Assets</b>	336,634	319,088
<b>Non-Entity Assets</b>		
<b>Intragovernmental Assets:</b>		
Fund Balance with Treasury	(Note 2)     2,741	2,520
Accounts Receivable	(Note 3)     10,225	13,044
<b>Total Intragovernmental Assets</b>	12,966	15,564
Accounts Receivable, Net	(Note 3)     3,095	1,413
<b>Total Non-Entity Assets</b>	16,061	16,977
<b>TOTAL ASSETS</b>	\$ 352,695	\$ 336,065

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, 2000 and 1999

	2000	1999
(In Thousands)		
<b>LIABILITIES</b>		
<b>Liabilities Covered by Budgetary Resources</b>		
<b>Intragovernmental Liabilities:</b>		
Accounts Payable	\$ 10,078	\$ 2,410
Payable to Treasury	3,093	1,354
<b>Total Intragovernmental Liabilities</b>	<b>13,171</b>	<b>3,764</b>
Accounts Payable	46,572	31,667
Accrued Funded Payroll Benefits	22,835	18,871
Other Liabilities (Note 6)	5,215	4,388
<b>Total Liabilities Covered by Budgetary Resources</b>	<b>87,793</b>	<b>58,690</b>
<b>Liabilities Not Covered by Budgetary Resources</b>		
<b>Intragovernmental Liabilities:</b>		
Accrued FECA Liability Payable	19,571	18,265
<b>Total Intragovernmental Assets</b>	<b>19,571</b>	<b>18,265</b>
Accrued Leave	29,161	27,765
FECA Actuarial Liability	102,014	82,139
Lease Liability (Note 7)	2,388	10,135
Contingent Liabilities (Note 8)	1,865	10,800
<b>Total Liabilities Not Covered by Budgetary Resources</b>	<b>154,999</b>	<b>149,104</b>
<b>TOTAL LIABILITIES</b>	<b>\$ 242,792</b>	<b>\$ 207,794</b>
<b>NET POSITION (Note 9)</b>		
Unexpended Appropriations	\$ 160,345	\$ 180,296
Cumulative Results of Operations	(50,442)	(52,025)
<b>TOTAL NET POSITION</b>	<b>109,903</b>	<b>128,271</b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 352,695</b>	<b>\$ 336,065</b>

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 Years Ended September 30, 2000 and 1999

	<u>2000</u>	<u>1999</u>
(In Thousands)		
<b>COSTS:</b>		
<b>REDUCE VIOLENT CRIME</b>		
<b>Program Costs</b>		
Intragovernmental	\$ 45,275	\$ 33,931
Public	<u>419,251</u>	<u>368,071</u>
Total Program Costs	464,526	402,002
<b>Less: Earned Revenues</b>	(Note 10) <u>(17,935)</u>	<u>(17,321)</u>
<b>Net Program Costs</b>	446,591	384,681
<b>PROTECT THE PUBLIC</b>		
<b>Program Costs</b>		
Intragovernmental	5,550	4,823
Public	<u>51,394</u>	<u>52,315</u>
Total Program Costs	56,944	57,138
<b>Less: Earned Revenues</b>	(Note 10) <u>(15)</u>	<u>-</u>
<b>Net Program Costs</b>	56,929	57,138
<b>COLLECT THE REVENUE</b>		
<b>Program Costs</b>		
Intragovernmental	6,714	5,370
Public	<u>62,172</u>	<u>58,250</u>
Total Program Costs	68,886	63,620
<b>Less: Earned Revenues</b>	(Note 10) <u>(832)</u>	<u>(861)</u>
<b>Net Program Costs</b>	68,054	62,759
<b>Costs Not Assigned to Programs</b>	<u>80,212</u>	<u>86,824</u>
<b>NET COST OF OPERATIONS</b>	<u>\$ 651,786</u>	<u>\$ 591,402</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 Years Ended September 30, 2000 and 1999

	2000	1999
	(In Thousands)	
<b>NET COST OF OPERATIONS</b>	\$ 651,786	\$ 591,402
<b>Financing Sources</b>		
Appropriations Used	615,369	546,955
Donations	438	-
Imputed Financing (Note 11)	24,086	24,300
Transfers-in (Note 12)	<u>13,476</u>	<u>19,381</u>
<b>Total Financing Sources</b>	<u>653,369</u>	<u>590,636</u>
<b>Net Results of Operations</b>	1,583	(766)
<b>Increase (Decrease) in Unexpended Appropriations</b>	<u>(19,951)</u>	<u>17,116</u>
<b>Change in Net Position</b>	(18,368)	16,350
<b>Net Position - Beginning of Period</b>	<u>128,271</u>	<u>111,921</u>
<b>NET POSITION - END OF PERIOD</b>	<u><u>\$ 109,903</u></u>	<u><u>\$ 128,271</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 Years Ended September 30, 2000 and 1999

	2000	1999
	(In Thousands)	
<b>BUDGETARY RESOURCES</b>		
	(Note 13)	
Budget Authority	\$ 607,212	\$ 572,753
Unobligated Balance - Beginning of Period	37,182	27,572
Net Transfers, Prior Year Balance	(4,325)	(925)
Spending Authority from Offsetting Collections	46,982	41,196
Adjustments	39,009	47,055
<b>TOTAL BUDGETARY RESOURCES</b>	<u>\$ 726,060</u>	<u>\$ 687,651</u>
 <b>STATUS OF BUDGETARY RESOURCES</b>		
Obligations Incurred	\$ 695,703	\$ 650,469
Unobligated Balances - Available	16,629	20,986
Unobligated Balances - Not Available	13,728	16,196
<b>TOTAL, STATUS OF BUDGETARY RESOURCES</b>	<u>\$ 726,060</u>	<u>\$ 687,651</u>
 <b>OUTLAYS</b>		
Obligations Incurred	\$ 695,703	\$ 650,469
Less: Spending Authority From Offsetting Collections and Adjustments	(93,443)	(92,203)
Obligated Balance, Net - Beginning of the Period	154,773	168,421
Less: Obligated Balance, Net - End of the Period	<u>(175,255)</u>	<u>(154,773)</u>
<b>TOTAL OUTLAYS</b>	<u>\$ 581,778</u>	<u>\$ 571,914</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 Years Ended September 30, 2000 and 1999

	2000	1999
	(In Thousands)	
<b>OBLIGATIONS AND NONBUDGETARY RESOURCES</b>		
Obligations Incurred	\$ 695,703	\$ 650,469
Less: Spending Authority From Offsetting Collections and Adjustments	(93,443)	(92,203)
Financing Imputed for Cost Subsidies (Note 11)	24,086	24,300
Transfers-in (Note 12)	13,476	19,381
Revenue Not in the Budget	(51)	(16)
<b>Total Obligations as Adjusted and Nonbudgetary Resources</b>	<u>\$ 639,771</u>	<u>\$ 601,931</u>
<b>RESOURCES THAT DO NOT FUND NET COST OF OPERATIONS</b>		
Change in Amount of Goods, Services and Benefits Ordered but Not Yet Provided	(1,167)	(8,232)
Change in Unfilled Customer Orders	14,303	2,395
Costs Capitalized on the Balance Sheet	(43,748)	(43,802)
Gain on Sale of Assets	-	(474)
Other	(40)	(5,055)
<b>Total Resources That Do Not Fund Net Cost of Operations</b>	<u>(30,652)</u>	<u>(55,168)</u>
<b>COSTS THAT DO NOT REQUIRE RESOURCES</b>		
Depreciation and Amortization	31,787	28,216
Liquidation of Prepayments	4,605	9,440
Loss on Disposition of Assets	380	-
<b>Total Costs That Do Not Require Resources</b>	<u>36,772</u>	<u>37,656</u>
<b>FINANCING SOURCES YET TO BE PROVIDED</b>	<u>5,895</u>	<u>6,983</u>
<b>NET COST OF OPERATIONS</b>	<u>\$ 651,786</u>	<u>\$ 591,402</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 Years Ended September 30, 2000 and 1999

	2000	1999
	(In Thousands)	
<b>REVENUE ACTIVITY</b>		
<b>Sources of Cash Collections</b>	(Note 14)	
Tax Revenues	\$ 14,105,744	\$12,136,139
Penalties and Fines	168	79
Interest	87	61
Other Custodial Revenue	259	306
<b>Total Cash Collections</b>	14,106,258	12,136,585
Accrual Adjustment	4,559	(656)
<b>Total Custodial Revenue</b>	14,110,817	12,135,929
<b>DISPOSITION OF COLLECTIONS</b>		
Transferred to Others	13,844,539	11,870,308
(Increase) Decrease in Amounts to be Transferred	(1,740)	1,112
Refunds and Other Payments	268,018	264,509
<b>Total Disposition of Collections</b>	14,110,817	12,135,929
<b>NET CUSTODIAL REVENUE ACTIVITY</b>	\$ -	\$ -

The accompanying notes are an integral part of these statements.

---

**NOTE 1****Summary of Significant Accounting Policies****REPORTING ENTITY**

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

**BASIS OF PRESENTATION**

The financial statements were prepared to report the significant assets, liabilities, net cost of operations, changes in net position, budgetary resources and custodial activity of ATF. The financial statements have been prepared from the books and records of ATF in conformity with generally accepted accounting principles (GAAP), and the form and content for entity financial statements specified by the Office of Management and Budget (OMB) in OMB Bulletin 97-01. ATF's accounting policies are summarized in this note. GAAP for Federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB), which was designated the official accounting standards-setting body for the Federal Government by the American Institute of Certified Public Accountants. These statements are different from the financial reports, also prepared by ATF, pursuant to OMB directives that are used to monitor and control ATF's use of budgetary resources.

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

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

**BUDGETS AND BUDGETARY ACCOUNTING**

Congressional appropriations provide financing sources on an annual and no-year basis. These appropriations finance operating expenses and the purchase of property and equipment as specified by law. Approp-

riations are also received to meet specific program objectives. The Bureau's activities are funded by the following:

- 20-0-1000 - Salaries and Expenses Appropriation
- 20-0-1000 - Salaries and Expenses Reimbursable Authority
- 20-X-1000 - No-year Appropriation
- 20-9/0-1000 - Prior-year Appropriation
- 20-9/1-1000 - Y2K Contingent Emergency Fund
- 20-0-1000 - 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.

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

**NON-EXCHANGE REVENUES**

Non-exchange revenues are inflows of resources that the Government demands or receives by donation.

Such revenue is recognized when a specifically identifiable, legally enforceable claim to resources arises, to the extent that collection is probable (more likely than not) and the amount is reasonably estimable.

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

Substantially all of the taxes and fees collected by ATF net of related refund disbursements are remitted to the Department of the Treasury General Fund. The Department of the Treasury further distributes this revenue to Federal agencies in accordance with various laws and regulations. Revenue collected from firearms and ammunition taxes is transferred directly to the Interior Department's Federal Aid to Wildlife Restoration Fund under provisions of the Pittman-Robertson Act of 1937 to support its mission. ATF disburses refunds to taxpayers and license applicants as well as monthly payments to the Governments of Puerto Rico and the Virgin Islands. These payments are used to "cover over" (rebate) excise taxes collected for alcohol (mostly rum) produced in these territories and used by U.S. producers to support economic revitalization. The amount covered over to these governments is based on the consolidation of figures obtained from the U.S. Customs Service, Census Bureau, domestic distilleries and the Puerto Rico field office. The Bureau also refunds excise taxes to taxpayers who use distilled spirits in the manufacture of non-beverage products such as medicines, food products and flavorings.

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

## FINANCING SOURCES

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

financing sources until used.

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

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

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

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

## ASSETS

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

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

## FUND BALANCE WITH TREASURY AND CASH

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

---

bonds held in lieu of corporate surety bonds guaranteeing payment of taxes.

### **PREPAYMENTS**

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

### **PROPERTY AND EQUIPMENT**

At September 30, 2000, ATF was in the process of constructing a laboratory in College Park, Md. and a canine kennel in Front Royal, Va. These costs are capitalized as construction in progress and will be transferred to the appropriate property account upon completion. ATF owns the land that the laboratory is being constructed upon and the building for the canine training facility. ATF has no deferred maintenance or cleanup costs.

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

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

### **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 EMPLOYEES' COMPENSATION ACT**

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

### **LITIGATION CONTINGENCIES AND SETTLEMENTS**

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

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

### **RETIREMENT PLAN**

Most ATF employees hired prior to January 1, 1984 participate in the Civil Service Retirement System (CSRS), to which ATF contributes 8.51 percent of basic pay (9.01 percent for those personnel classified as law enforcement agents) and the employee contributes 7.40 percent (7.90 percent for those personnel classified as law enforcement agents) for a total contribution rate of 15.91 percent in FY 2000 (16.91 percent for those personnel classified as law enforce-



ment agents). On January 1, 1984, the Federal Employees' Retirement System (FERS) went into effect pursuant to Public Law 99-335. Employees hired after December 31, 1983 are automatically covered by FERS and Social Security. For most employees hired after December 31, 1983, ATF also contributes the employer's matching share of Social Security. For FERS basic benefit, the employee contributes 1.2 percent of basic pay (1.7 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 11.9 percent in FY 2000 (25.0 percent for those personnel classified as law enforcement agents). The cost of providing a FERS basic benefit as provided by OPM is equal to the amounts contributed by ATF and the employees because the plan is fully funded.

All employees are eligible to contribute to the Thrift Savings Plan (TSP). For those employees participating in the FERS, a TSP account is automatically established, and ATF makes a mandatory 1 percent contribution to this account. In addition, ATF makes matching contributions, ranging from 1 to 4 percent, for FERS eligible employees who contribute to their TSP

: accounts. Matching contributions are not made to the  
: TSP accounts established by CSRS employees.  
:  
:  
: ATF recognized the full cost of providing future pen-  
: sion and other retirement benefits (ORB) for current  
: employees as required by SFFAS No. 5. Full cost  
: includes pension and ORB contributions paid out of  
: Bureau appropriations and costs financed by the Office  
: of Personnel Management (OPM). Reporting amounts  
: such as plan assets, accumulated plan benefits, or  
: unfunded liabilities, if any, is the responsibility of the  
: OPM.

**USE OF ESTIMATES**

: The preparation of financial statements requires  
: management to make estimates and assumptions that  
: affect the reported amount of assets and liabilities, as  
: well as the disclosure of contingent liabilities at the  
: date of the financial statements, and the amount of  
: revenues and costs reported during the period. Actual  
: results could differ from those estimates.

**RECLASSIFICATIONS**

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

**NOTE 2****Fund Balance with Treasury & Cash**

Fund balance with Treasury and cash as of September 30, 2000 and 1999 are provided in the charts shown below.

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

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

ment 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, and other liabilities on the Balance Sheet. These funds are restricted solely for the purposes described and are unavailable to fund ATF operations.

**FY 2000***(In Thousands)*

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

**FY 1999***(In Thousands)*

Entity:	Obligated	Unobligated		Total
		Available	Restricted	
Trust Funds	\$ 17,961	\$ 7,939	\$ -	\$ 25,900
Appropriated Funds	135,214	28,550	-	163,764
Other Fund Types	-	1,868	-	1,868
Fund Balance	<u>\$ 153,175</u>	<u>\$ 38,357</u>	<u>\$ -</u>	<u>\$ 191,532</u>
Cash		<u>\$ 2,291</u>	<u>\$ -</u>	<u>\$ 2,291</u>
<b>Non-Entity:</b>				
Fund Balance			<u>\$ 2,520</u>	<u>\$ 2,520</u>

**NOTE 3**

**Accounts Receivable**

Accounts receivable as of September 30, 2000 and 1999 are provided in the chart shown below.

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

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

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

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

: An allowance for uncollectible amounts has been recognized for non-entity receivables. The allowance is based on an analysis of individual receivable balances, historical collections and the application of estimated collectible amounts to categories of receivable balances at year end. As of September 30, 2000 and 1999, approximately \$140.0 million and \$13.5 million of the allowance, respectively, were based on cases that ATF had entered into negotiations for payment through offers-in-compromise, which had not yet been finalized.

<i>(In Thousands)</i>	<b>FY 2000</b>		<b>FY 1999</b>	
	<b>Entity</b>	<b>Non-Entity</b>	<b>Entity</b>	<b>Non-Entity</b>
Intragovernmental Receivables	<u>\$ 23,326</u>	<u>\$ 10,225</u>	<u>\$ 27,849</u>	<u>\$ 13,044</u>
Receivables:				
Taxes/Fees		\$ 124,728		\$ 14,041
Interest		29,663		\$ 3,583
Penalties		6,069		2,054
Restitution Cases		550		196
		<u>161,010</u>		<u>19,874</u>
Less:				
Allowance for Uncollectible Accounts		<u>(157,915)</u>		<u>(18,461)</u>
Receivables, Net		<u>\$ 3,095</u>		<u>\$ 1,413</u>

**NOTE 4****Property and Equipment**

Property and equipment as of September 30, 2000 and 1999 are provided in the charts shown below.

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

tion and depreciated under the guidelines of the respective property categories or the life of the lease, whichever is shorter. Construction in progress represents initial costs of developing Bureau requirements for the construction of a laboratory in College Park, Md. and a canine kennel in Front Royal, Va. The land located in College Park, Md. is recorded at its acquisition value and the owned building for the canine training facility was completed in FY 2000. There are no restrictions on the use or convertibility of property and equipment.

**FY 2000**

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

**FY 1999**

<i>(In Thousands)</i>	<i>Service Life (Years)</i>	<i>Acquisition Value</i>	<i>Accumulated Depreciation</i>	<i>Net Book Value</i>
ADP Software	3	\$ 6,232	\$ 2,395	\$ 3,837
Equipment	2-10	121,652	59,795	61,857
Leasehold Improvements	2-5	8,332	4,627	3,705
Assets Under Capital Lease		26,327	13,106	13,221
Construction in Progress		8,156	-	8,156
Total Property & Equipment		<u>\$ 170,699</u>	<u>\$ 79,923</u>	<u>\$ 90,776</u>

---

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

Other assets as of September 30, 2000 and 1999 are provided in the chart shown below.

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.

<i>(In Thousands)</i>	<i><b>FY 2000</b></i>	<i><b>FY 1999</b></i>
	<u><i><b>Entity</b></i></u>	<u><i><b>Entity</b></i></u>
<b>Other Assets:</b>		
Advances	\$232	\$282
Due From Employees	<u>550</u>	<u>107</u>
Total Other Assets	<u><u>\$782</u></u>	<u><u>\$389</u></u>

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

Other Liabilities Covered by Budgetary Resources includes current amounts held for offers-in-compromise, cash bonds, and deposit fund amounts held in escrow.

## 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 \$21,751. The remaining \$4,725 is the acquisition value of related computer software.

Future minimum lease payments due for capital leases on machinery, equipment and related computer software as of September 30, 2000 and 1999 are provided in the chart shown below.

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 computers and related software for ATF's strategic and day-to-day business requirements. In addition to this major program, the Bureau has entered into a number of smaller capital lease agreements for laboratory and other office equipment.

Assets acquired by capital lease agreements are reported on the accompanying Balance Sheet based on the lesser of the present value of the future minimum lease payments or the fair market value of the asset. Imputed interest rates range from 3.9 to 13.9 percent.

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

<i>(In Thousands)</i> Fiscal Year	<u>FY 2000</u>	<u>FY 1999</u>
2000	\$ -	\$8,367
2001	2,286	2,235
2002	95	44
2003	84	34
2004	66	15
2005	44	-
Future Lease Payments	<u>\$2,575</u>	<u>\$10,695</u>
Less: Imputed Interest	<u>(187)</u>	<u>(560)</u>
<b>Net Capital Lease Liability</b>	<u><b>\$2,388</b></u>	<u><b>\$10,135</b></u>
Liabilities not covered by budgetary resources	<u>\$2,388</u>	<u>\$10,135</u>

#### OPERATING LEASES

The Bureau leases various copiers, fax machines and vehicles under agreements accounted for as operating leases. Future commitments under operating leases

for equipment as of September 30, 2000 and 1999 are provided in the chart shown below.

<i>(In Thousands)</i> Fiscal Year	<u>FY 2000</u>	<u>FY 1999</u>
2000	\$ -	\$596
2001	629	248
2002	256	143
2003	94	25
2004	37	4
2005	9	-
<b>Total Future Lease Payments</b>	<u><b>\$1,025</b></u>	<u><b>\$1,016</b></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 and SFFAS No. 12 contain the criteria for recognition and disclosure of contingent liabilities.

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

At September 30, 2000, ATF legal counsel was processing approximately 291 of these actions against the Bureau. ATF identified and accrued, at September 30, 2000, \$1.9 million as a contingent liability. These amounts represent those costs which ATF believes are probable and reasonably estimable. These liabilities result from administrative tort and employee claims, lawsuits filed under the Federal Tort Claims Act, and personnel and EEO cases.

The change in contingent liabilities from September 30, 1999 resulted from the resolution of various administrative tort and employee claims, lawsuits filed under the Federal Tort Claims Act, and the reclassifying of a lawsuit filed under the Federal Tort Claims Act from probable to reasonably possible.

ATF counsel identified at September 30, 2000, \$31.1 million which ATF has not recorded an accrual for, because in management's opinion, an unfavorable outcome is reasonably possible but not probable.

. These cases result from administrative tort and employee claims, contract takings, patent infringement and tax claims lawsuits, personnel and EEO cases, administrative EEO/personnel cases, and lawsuits filed under the Federal Tort Claims Act.

. As of September 30, 2000, there was one large group of Federal Tort Claims Act administrative claims involving the bombing of the Federal building in Oklahoma City, Oklahoma. This group entailed 655 individual claims seeking over \$16 billion in damages. The Department of Justice is the lead agency and is handling the claims as they involve allegations of negligence by a number of Federal agencies, including ATF. ATF believes that it has meritorious defenses to these claims and that ATF acted properly at all times in these matters. In addition, there were eight lawsuits filed under the Federal Tort Claims Act against the United States involving actions by ATF employees acting within the scope of their employment at the Branch Davidian compound near Waco, Texas. The plaintiffs were seeking approximately \$7.36 billion. The district court issued a favorable decision, but the plaintiffs have filed an appeal. ATF believes these cases are without merit and is aggressively defending the cases on appeal. ATF believes that it has strong arguments that the district court's decision was proper and that ATF's agents acted properly. Accordingly, ATF has not recorded any loss provision relative to damages sought by the plaintiffs for these cases.

. Public Law 101-510, enacted November 5, 1990, requires Federal agencies to automatically cancel obligated balances on annual appropriated funds after specific future time periods, even though the agency remains contingently liable to pay valid contractor invoices for services received under contracts signed in the year of obligation. Legitimately incurred obligations that have not been paid at the time an appropriation is canceled must be paid from current appropriations available for the same purpose. ATF canceled approximately \$51,000 of obligations relating to appropriations canceled at the end of FY 2000. 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, 2000 and 1999 is provided in the charts shown below.

Unexpended appropriations represent the amount of spending authorized as of year-end that is unliquidated or unobligated and which has not lapsed, been re-

scinded, or been 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.

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

<b>FY 1999</b> (In Thousands)	<b>Trust Funds</b>	<b>Appropriated Funds</b>	<b>Other</b>	<b>Total</b>
Unexpended Appopriations:				
Unobligated - Available	\$ 7,936	\$ 28,784	-	\$ 36,720
Unobligated - Unavailable	-	-	-	-
Undelivered Orders	14,480	129,096	-	143,576
Total Unexpended Appropriations	22,416	157,880	-	180,296
Cumulative Results of Operations	16,340	(68,365)	-	(52,025)
Net Position	\$ 38,756	\$ 89,515	-	\$ 128,271

**NOTE 10****Earned Revenue**

Earned revenue represents amounts earned for services provided by the Bureau to other government agencies under reimbursable agreements. ATF has entered into a variety of reimbursable agreements to provide services such as enforcement, training and professional development, science and information technology, and the management of common areas. These agreements are with agencies such as the

Secret Service, the Department of Justice, the National Drug Intelligence Center, the Department of Housing and Urban Development, the Department of State, the Environmental Protection Agency, and other components of the Department of the Treasury. ATF maintains a reimbursable agreement with the governments of Puerto Rico and the Virgin Islands which stipulates that any expenses incurred by the Department of the Treasury at these sites are to be fully offset from tax collections related to distilled spirits production or manufacture in those territories.



**NOTE 11**

**Imputed Financing**

Imputed financing for the year ended September 30, 2000 and 1999 is provided in the chart shown below.

Imputed financing sources represent amounts paid in FY 2000 by the Judgement Fund to settle lawsuits and claims against the Bureau. Additional imputed financing is recognized for amounts financed in FY 2000 by OPM to provide future pension and other retirement benefits to current ATF employees.

The cost of providing a CSRS benefit is more than the amounts contributed by ATF and its employees. In accordance with SFFAS No. 5, bureaus are required to report the full cost of providing pension benefits to include the cost financed by OPM. This additional expense totaling \$12.0 million is included as an expense and as an imputed financing source in the financial statements for FY 2000.

ATF does not report CSRS assets, FERS assets, accumulated plan benefits or unfunded liabilities, if any, applicable to retirement plans because the accounting for and reporting of such amounts is the responsibility of OPM. Total contributions by ATF of \$43.7 million related to these plans were made for FY 2000. 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 2000 FEHBP cost factor applied to a weighted average number of employees enrolled in the FEHBP is \$2,733, which is provided by OPM. The FEHBP ORB amount totaling \$10.7 million is included as an expense and imputed financing source in ATF's financial statements for FY 2000. The FY 2000 FEGLI cost factor for employees enrolled in the FEGLI program, as provided by OPM, is .02 percent of their basic pay. The FEGLI ORB amount totaling \$49,000 is included as an expense and imputed financing source in ATF's financial statements for FY 2000.

Total imputed financing sources for FY 2000 equal about \$22.7 million (the sum of \$12.0 million for pension expense, \$10.7 million for FEHBP ORB and \$49,000 for FEGLI ORB).

ATF's contributions for active employees who participate in the FEHBP were \$13.5 million for FY 2000. ATF's contributions for active employees who participate in the FEGLI programs were \$508,000 for FY 2000.

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. The OPEB amount totaling \$51,700 is included as an expense and liability in ATF's financial statements for FY 2000.

<i>(In Thousands)</i>	<u><b>FY 2000</b></u>	<u><b>FY 1999</b></u>
Funds paid by the Judgement Fund	\$ 1,327	\$ 806
Future pension and other retirement benefits financed by OPM	<u>22,759</u>	<u>23,494</u>
Total Imputed Financing	<u><u>\$ 24,086</u></u>	<u><u>\$ 24,300</u></u>

---

**NOTE 12****Transfers-In**

Transfers-in consist of funds received by ATF from Treasury's Executive Office for Asset Forfeiture (EOAF) to perform the Bureau's role as a law enforcement entity supporting law enforcement initiatives. EOAF, also known as the Treasury Asset Forfeiture Fund, was established pursuant to the Treasury Forfeiture Fund Act of 1992 and 31 U.S.C. 9703. The Fund serves as

the Department's central funding source for financing asset seizure and forfeiture law enforcement initiatives. Although the Fund is the Department's central funding source for these initiatives, EOAF cannot undertake asset seizure and forfeiture. Only law enforcement agencies, including ATF, are lawfully authorized to perform these duties. Consequently, EOAF distributes a portion of the Fund's resources to ATF.

---

**NOTE 13****Budgetary Resource Information**

Budgetary resource information as of September 30, 2000 and 1999 is provided in the charts shown below.

Adjustments during the period included recovery of prior year obligations and cancellation of FY 1995 and 1994 appropriations in the amount of \$3.3 and \$4.0

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

**FY 2000***(In Thousands)*

Net Amount of Budgetary Resources Obligated for Undelivered Orders at Year End	\$	157,570
Available Borrowing and Contract Authority at Year End	\$	-
Adjustments During the Reporting Period to Budgetary Resources Available at the Beginning of the Year	\$	46,462
Amount of Contributed Capital Received During the Reporting Period	\$	-

**FY 1999***(In Thousands)*

Net Amount of Budgetary Resources Obligated for Undelivered Orders at Year End	\$	156,330
Available Borrowing and Contract Authority at Year End	\$	-
Adjustments During the Reporting Period to Budgetary Resources Available at the Beginning of the Year	\$	51,007
Amount of Contributed Capital Received During the Reporting Period	\$	-

**NOTE 14****Non-Exchange Revenue**

As of September 30, 2000, Non-Exchange revenue collections and refunds consisted of the following:

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

<i>(In Thousands)</i>	<i>Cumulative Cash Collections Received FY 1999</i>	<i>1999</i>	<i>1998</i>	<i>1997</i>	<i>Prior Years</i>
<i>Tax Year</i>					
Excise Taxes	\$ 12,024,863	\$ 8,811,181	\$ 3,212,528	\$ 467	\$ 687
Fees and Licenses	111,276	103,848	7,161	171	96
Fines, Penalties, Interest and Other Revenue	446	339	21	56	30
<b>Total Non-Exchange Revenue Collections</b>	<b>\$ 12,136,585</b>	<b>\$ 8,915,368</b>	<b>\$ 3,219,710</b>	<b>\$ 694</b>	<b>\$ 813</b>

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

<i>(In Thousands)</i>	<i>Refunds Disbursed FY 1999</i>	<i>1999</i>	<i>1998</i>	<i>1997</i>	<i>Prior Years</i>
<i>Tax Year</i>					
Excise Taxes	\$ 264,007	\$ 133,548	\$ 126,372	\$ 3,048	\$ 1,039
Fees and Licenses	502	346	96	49	11
Fines, Accounts Receivable and Other Revenue	-	-	-	-	-
<b>Total Non-Exchange Revenue Refunds</b>	<b>\$ 264,509</b>	<b>\$ 133,894</b>	<b>\$ 126,468</b>	<b>\$ 3,097</b>	<b>\$ 1,050</b>

**NOTE 15**

**Analyses of Changes in Seized and Forfeited Property**

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

Accounting methodologies for seized and forfeited property reflect standards published in SFFAS No. 3, Accounting for Inventory and Related Property; OMB Bulletin No. 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, ammunition, and explosives which no longer  
 : have intrinsic economic value and will not be reintro-  
 : duced 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, 2000 and 1999. ATF  
 : reports year-end seized and forfeited property bal-  
 : ances 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.

The following analysis of change in material non-valued seized property during Fiscal Years 2000 and 1999, presented by the number of line items seized, are as follows:

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

FY 1999 Analysis of Changes in Seized Property (Number of Transactions)								
	<i>Balance 10/1/98</i>	<i>Net Adjustments</i>	<i>Seizures</i>	<i>Cash Adjustments</i>	<i>Remissions</i>	<i>Other Disposals</i>	<i>Forfeitures</i>	<i>Balance 9/30/99</i>
General Property - Prohibited Units	20,950	(497)	10,142	-	(314)	(30)	(5,216)	25,035

For material categories, the ending balances for material non-valued seized property are also presented in quantity of items, in compliance with Federal Financial Accounting and Auditing Technical Release Number 4. The ending balances are as follows:

Seized	FY 2000	FY 1999
Handguns	10,535	10,333
Machineguns	955	718
Other	28,532	52,603
Rifle	9,824	9,026
Shotguns	3,472	3,256
Total	<u>53,318</u>	<u>75,936</u>

The following analysis of change in material non-valued forfeited property during Fiscal Years 2000 and 1999, presented by number of line items seized, are as follows:

<b>FY 2000 Analysis of Disposition of Forfeited Property</b> (Number of Transactions)									
	<i>Balance 10/1/99</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 9/30/00</i>
General Property - Prohibited Units	2,703	197	7,186	-	(1)	(114)	(57)	(5,583)	4,331

<b>FY 1999 Analysis of Disposition of Forfeited Property</b> (Number of Transactions)									
	<i>Balance 10/1/98</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 9/30/99</i>
General Property - Prohibited Units	2,318	(132)	5,216	-	-	(112)	(29)	(4,558)	2,703

For material categories, the ending balances for material non-valued seized property are also presented in quantity of items, in compliance with Federal Financial Accounting and Auditing Technical Release Number 4. The ending balances are as follows:

<b>Forfeited</b>	<b>FY 2000</b>	<b>FY 1999</b>
Handguns	1,660	1,115
Machineguns	83	98
Other	28,607	26,580
Rifle	956	603
Shotguns	639	340
<b>Total</b>	<u>31,945</u>	<u>28,736</u>

# Required Supplementary Information

## Claims for Refunds not Accrued (Unaudited)

At September 30, 2000 and 1999, ATF had approximately \$36.8 and \$24.6 million, respectively, in refund claims under audit by the Tax Processing Center and the Technical Services offices. Refunds are payable upon approval.

## Budgetary Information (Unaudited)

Budgetary Information as of September 30, 2000 and 1999 is provided in the following charts.

## Abatements/Write-offs (Unaudited)

At September 30, 2000 and 1999, ATF had approximately \$5.9 and \$1.6 million, respectively, of assessments the entity still has statutory authority to collect at the end of the period, but has no future collection potential and are therefore defined as write-offs.

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

**FY 1999***(In Thousands)*

	<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	\$ 566,753	\$ -	\$ 16,000	\$ -	\$ 572,753
Unobligated Balance - Beginning of period	18,902	-	8,670	-	27,572
Net Transfers, Prior Year Balance	(925)	-	-	-	(925)
Spending Authority from Offsetting Collections	41,196	-	-	-	41,196
Adjustments, Anticipated for Rest of Year	43,799	-	3,256	-	47,055
Total Budgetary Resources	<u>\$ 659,725</u>	<u>\$ -</u>	<u>\$ 27,926</u>	<u>-</u>	<u>\$ 687,651</u>

**Status of Budgetary Resources:**

Obligations Incurred	\$ 630,479	\$ -	\$ 19,990	\$ -	\$ 650,469
Unobligated Balances - Available	16,620	-	4,366	-	20,986
Unobligated Balances - Not Available	12,626	-	3,570	-	16,196
Total Status of Budgetary Resources	<u>\$ 659,725</u>	<u>\$ -</u>	<u>\$ 27,926</u>	<u>\$ -</u>	<u>\$ 687,651</u>

**Outlays:**

Obligations	\$ 630,479	\$ -	\$ 19,990	\$ -	\$ 650,469
Less: Spending Authority from Offsetting Collections and Adjustments	(88,946)	-	(3,257)	-	(92,203)
Obligated Balance, Net-Beginning of the Period	147,978	-	20,443	-	168,421
Less: Obligated Balance, Net-End of the Period	(136,809)	-	(17,964)	-	(154,773)
Total Outlays	<u>\$ 552,702</u>	<u>-</u>	<u>\$ 19,212</u>	<u>\$ -</u>	<u>\$ 571,914</u>

# Principal Officers of ATF

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

**For additional information contact:**

**Office of Public Information  
Bureau of Alcohol, Tobacco and Firearms  
650 Massachusetts Avenue, N.W.  
Washington, D.C. 20226-0013**

**(202) 927-8500  
Internet Address  
(<http://www.atf.treas.gov>)**





ATF P1992.1 (5/2001)