

FINANCIAL DISCUSSION AND ANALYSIS

Fiscal year 1997 was outstanding for Bureau management initiatives and improvements. ATF is especially pleased with the progress related to preparation of financial statements, with an unqualified audit opinion from the Office of Inspector General (OIG) for the FY 1996 Statement of Financial Position and Statement of Operations and Changes in Net Position. This achievement culminated a three-year Bureau-wide effort to improve management accountability and business processes.

MANAGEMENT INITIATIVES

The Bureau revised its budget activity structure in FY 1996 to link strategic planning, budget formulation, and financial management execution. Benefits of the new structure include a budget easily understood by external stakeholders and an infrastructure for strategic decision making and results evaluation. Management accountability remains an integral focus of all business processes. In FY 1997, ATF continued efforts to develop linkage among the strategic plan, budget formulation and financial management execution based on environmental assessment surveys. In FY 1997, ATF continued using the CFO Steering Committee and CFO Process Teams as a primary structure for improvements in accountability and financial management processes; and continued steps towards developing a cost accounting system.

CFO STEERING COMMITTEE AND PROCESS TEAMS

The CFO Steering Committee, comprised of the deputies of each major Bureau component, continued to meet monthly during FY 1997. It provides a forum for monitoring progress, resolving problems, providing coordination, and developing consensus recommendations regarding audited financial statement issues and the Bureau's internal control environment. Bureau-wide process teams and financial

management personnel were successful in addressing reportable conditions identified in the 1996 audit process.

Due to the long-term nature of the issues, many of the planned corrective actions related to Electronic Data Processing (EDP) extend beyond FY 1997 for implementation. The Bureau established a new process team to address the EDP audit findings and recommendations. This team worked closely with the OIG's Director of Information Technology to address corrective actions.

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COST ACCOUNTING AND PERFORMANCE MEASUREMENT

ATF formed a Bureau-wide team to gather requirements for a cost/performance measurement system. From identification of preliminary requirements for performance measurements, a new budget activity and program structure were developed to present the FY 1998 budget. 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.

Plans are to implement the cost/performance measurement system incrementally over the next several years. The next phases are to refine definitions of performance measures, develop a costing methodology, and implement an operational cost accounting pilot.

STRATEGIC MANAGEMENT TEAM

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

- establish ATF's vision and strategic goals;
- lead the implementation of the strategic plan;
- establish high-level policy and priorities; and,
- make the Bureau's key strategic business decisions.

In accordance with the provisions of the Information Technology Management Reform Act of 1996, the Strategic Management Team serves as the Bureau's investment review board to evaluate all new major investments and determine whether to retain funding for existing investments that were deployed in prior years.

Notable accomplishments for FY 1997:

- revised ATF's Strategic Plan to make it: more mission comprehensive; clearly direct the Bureau's budget; in alignment with the Department of the Treasury's Strategic Plan; and compliant with the provisions of the Government Performance and Results Act;
- identified 12 organizational priorities focused on infrastructure and operational needs. These 12 priorities, which received our major focus and strongest support in FY 1997, represent those matters most critical to the

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achievement of our vision and strategic goals. These priorities are reviewed and modified as necessary; and,

- reviewed ATF's organizational structure and core processes to ensure these meet the needs and requirements of our customers and enable us to achieve our vision and strategic goals. This review resulted in major restructuring of our Headquarters and Field operations. Implementation of the changes began in FY 1997 and will continue through FY 1998.

FINANCIAL MANAGEMENT AND TRAINING

ATF continued its focus of providing basic and expanded financial management training to personnel throughout the Bureau. During FY 1997, basic training was provided to new program managers on the subject of Financial Management for Non-Financial Managers. This one day course provided training on the use of funds, as well as Federal Acquisition Regulations, Federal Travel Regulations, and Bureau policies in relation to the Government Commercial Credit Card program to program managers throughout the Bureau that

are the first line of planning and budget execution. Advanced training was provided to more experienced staffs on Budget, Financial Management and Liability Certification for year-end closing purposes. ATF also continued its awareness and training programs on internal controls.

The Monthly Accountability Plan (MAP), continued in FY 1997, is 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.

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FINANCIAL SYSTEMS

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

The development of an Integrated Collections System (ICS) will provide the foundation for the Bureau's revenue management function. The ICS 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.

FINANCIAL MANAGEMENT INFORMATION SYSTEM

Core FMIS is an off-the-shelf software package that provides general ledger control for administrative and revenue accounting. Core modules include budget execution and funds control, reimbursable project cost accounting, accounts payable and

receivable, travel, document tracking, purchasing, disbursements and a reports management system. Maintenance and development tasks focus on providing more reliable, consistent and meaningful information to management for decision making.

FMIS FY 1997 accomplishments:

- implemented the first phase of a new procurement subsystem. It is the first step of an ambitious effort to create a complete electronic desktop environment for the processing of all future financial transactions throughout the Bureau;
- completed the first of a multi-year process to migrate Bureau managers from existing financial cuff systems (inde-

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pendent, non-integrated systems) to FMIS. Program Office Desktop, a Windows-based client server application, will fully integrate with FMIS and enable funds control managers to electronically prepare, route, and process financial documents, establish budgetary plans, and define and run their own management reports. This decentralized application will be fully integrated with the procurement subsystem and the core financial system;

- implemented an enhanced payroll interface to facilitate error correction and cash reconciliation;
- implemented new property and space management systems; and,
- installed a new time and attendance system called Simplified Time and Attendance Tracking (STATS). STATS is an on-line, main-frame application that will enhance transmission of data

by timekeepers and provide on-line edits of data to prevent transmission of incorrectly coded payroll transactions.

FMIS plans:

- develop and implement a Cost and Performance Measurement reporting structure. The automated cost accounting system will support strategic planning by integrating planning, performance measurement, and budgeting. It will also support management analysis of cost and performance by providing data for weighing ATF actions and assessing the most cost effective way of achieving business objectives;
- continue with the agency's long term effort to migrate from cuff systems to standardized, decentralized client server financial systems;
- continue with the second phase of implementation of the procurement subsystem;
- begin efforts to integrate the property system into the Bureau's primary financial system; and
- design and develop an automated budget formulation system to facilitate the development and costing of Bureau programs and initiatives as well as automatically transforming those budgets into executable plans.

An ATF employee from the Baltimore field division works with a vendor to develop requirements for the Program Office Desktop system.



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INTEGRATED COLLECTIONS SYSTEM

The 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.

Following is an overview of the objectives for the seven major ICS business areas scheduled for development:

Permit Management: provide enhanced system capability to administer more effectively permit and license application processing for alcohol, tobacco, firearms, and explosives industries.

FY 1997 accomplishments:

- developed and implemented the Technical Service System (TSS) database for Alcohol and Tobacco Permittees. This database consolidated the previous five separate databases located at the technical services offices into one

consolidated database at the new National Revenue Center (NRC). TSS contains information on all permittees and taxpayers for alcohol and tobacco. This system utilizes an Oracle database on a client/server platform for ease in communications between all the various future systems planned for ATF.

- completed a pilot program at the NRC for gathering information from proprietors' monthly operational reports. This program focused on tobacco permittees but gives ATF the base for expanding the program to wine, beer, and distilled spirits permittees.
- developed the National Firearms Act (NFA) database that will enable users to view instantly an application for manufacturing, registering, transferring, and exporting NFA weapons. This newly designed system adds efficiency due to better tracking and statistical reporting of NFA information, as well as quicker and easier access to Federal Firearms License and Special Occupational Tax information when validating information on NFA forms.

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Plans for FY 1998 include continued development of the Alcohol and Tobacco and Firearms Licensing Systems.

Tax Protection: improve timeliness of tax and fee collection and claims processing, with more reliable internal controls to ensure fair and accurate tax assessments to ATF's customers.

FY 1997 accomplishments:

- started the pilot program for Special Occupational Tax (SOT) system. This system will provide the baseline for developing the full SOT system and the Federal Excise Tax system in FY 1998;
- implemented document imaging at the National Revenue Center (NCR) as part of the SOT system. This will allow ATF to expand document imaging for all NRC operations; and
- acquired imaging technology at the Tax Processing Center (TPC) to enhance its capability of storing and retrieving information relating to tax returns, permit applications, reports, and compliance history associated with a particular entity. The imaging process will allow easier and faster access to virtually every document and form the TPC uses in regulation of industry members and other tax paying entities.

Plans for FY 1998 include continuing development of the Federal Excise and Special Occupational Tax Systems.

Program Management: provide an enhanced capability to evaluate mission program performance.

Commodity Compliance: provide additional safeguards to the public from the threat of deception, contamination, and fraud in alcohol beverage products.

Public Safety: provide stronger safety measures from potential hazards inherent in the firearms and explosives industries (such as storage, transfer and sale).

Administrative Actions: provide the framework to enhance the Bureau's ability to follow up on all regulatory enforcement actions.

Funds Management: integrate financial information from all business areas described above with the FMIS general ledger.

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

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FINANCIAL PERFORMANCE

PROMPT PAYMENT

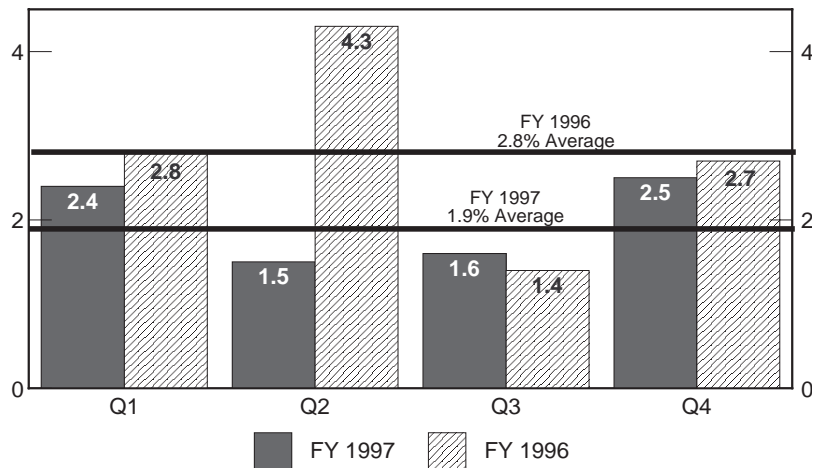
The Prompt Payment Act requires the Federal Government to make vendor payments timely, with interest penalties for late payments and discounts for meeting approved accelerated payments. ATF implemented systems enhancements and edits to ensure compliance with the Prompt Payment Act, which included controls to ensure that the acceptance of goods and services date is drawn from the receiving document only. FMIS was reconfigured to permit rescheduling of payments if the payment falls on weekends or holidays. In FY 1997, ATF made significant improvements in the timeliness of vendor payments. The FY 1997 1.9 percent annual delinquency rate represents a 32 percent decrease in the prompt pay delinquency rate from the Bureau's FY 1996 average.

CASH MANAGEMENT

A number of initiatives are under way or planned to improve and modernize cash management business practices. ATF increased the level of internal controls in place for both the Government Commercial Credit Card and the Travel and Transportation Charge Card to protect the Bureau from potential losses or fraud.

PROMPT PAY QUARTERLY COMPARISON

Frequency of Invoices with Paid Interest Penalties



ATF continued its implementation of the Debt Collection Improvement Act of 1996 by converting Bureau vendors to electronic payments. Currently, 55 percent of Bureau vendors participate in the electronic payment system and are experiencing a faster return of payment under the Prompt Payment Act. In addition, 100 percent of Bureau travelers and 98 percent of employee's now receive electronic reimbursement instead of manual check payments.

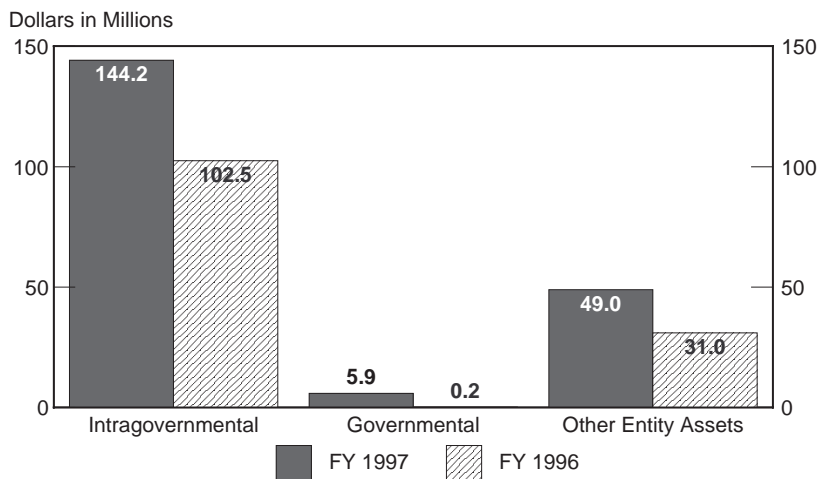
The Bureau uses the automated FEDWIRE Deposit System for semi-monthly collection of alcohol and tobacco excise tax payments by taxpayers who pay more than \$5 million per calendar year. ATF also maintains a

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network of commercial post office boxes, or lockboxes, throughout the United States for collection of other excise taxes, firearms license and permit fees, and Special Occupational Taxes. The lockbox depository credits

collections received by ATF directly to a clearing account for subsequent transfer to the United States Treasury, ensuring timely deposit of tax revenue to the Treasury General Fund.

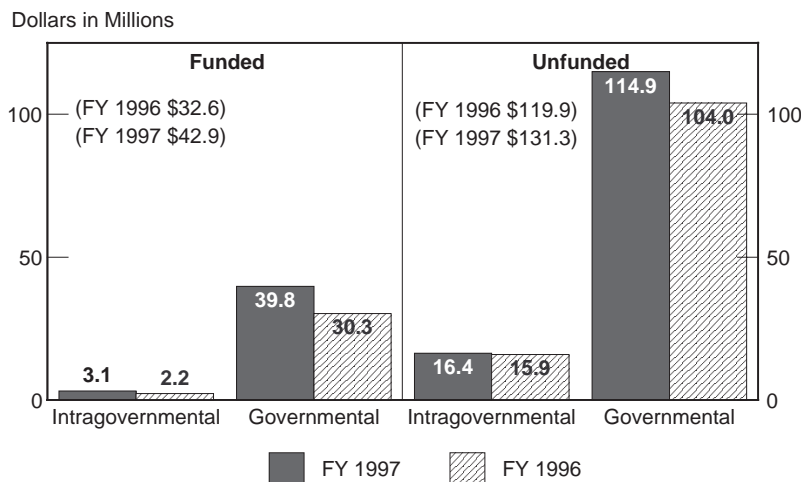
ENTITY ASSETS



ENTITY ASSETS AND LIABILITIES

The Bureau's intragovernmental entity assets for the periods ending September 30, 1997 and 1996, include fund balance with Treasury and receivables due to ATF resulting from reimbursable work performed for other Federal agencies. Governmental entity assets include receivables and advances due from employees and court ordered restitutions for violations of laws and regulations. Entity assets also include cash (imprest funds) and property and equipment, net of depreciation.

ENTITY LIABILITIES



Entity liabilities are incurred during the performance of the Bureau's mission. Liabilities funded by appropriations include accounts payable to vendors, employees, and other government agencies as well as accrued payroll expenses as of September 30, 1997 and 1996. Unfunded liabilities that will be paid through future appropriations include employee claims for leave and workers' compensation benefits as well as future capital lease and contingent liability payments.

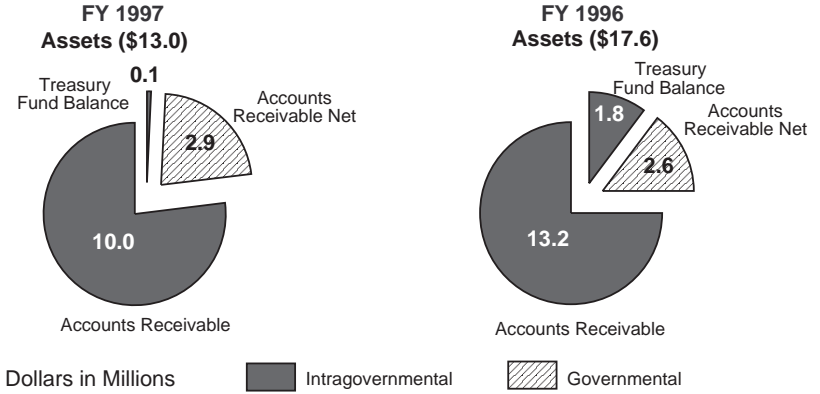
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NON-ENTITY ASSETS AND LIABILITIES

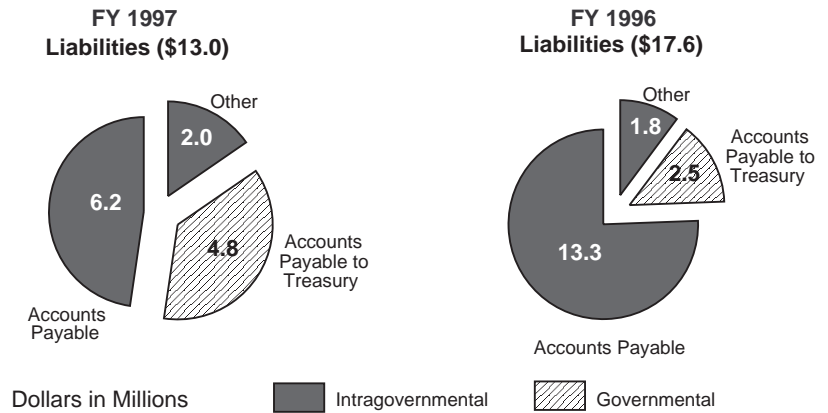
Non-entity assets primarily relate to the Bureau's revenue collection function for the Federal Government. Components of intragovernmental non-entity assets at September 30, 1997 and 1996, include fund balance with Treasury and accounts receivable due to ATF from the Treasury to refund certain excise tax and license fee claims. Governmental non-entity assets consist of accounts receivable less amounts deemed uncollectible. These receivables include outstanding excise and Special Occupational Taxes, fees, fines, penalties and interest that have been assessed and remain unpaid at year end.

Non-entity liabilities, primarily governmental, relate to the Bureau's custodial function for revenue collection. Amounts include accrued accounts payable to refund taxpayers for claims approved by ATF but not disbursed as of September 30, 1997 and 1996, as well as amounts held in escrow for cash bonds and offers-in-compromise. Intragovernmental liabilities represent taxes which will be transferred to the Treasury when collected.

NON-ENTITY ASSETS



NON-ENTITY LIABILITIES



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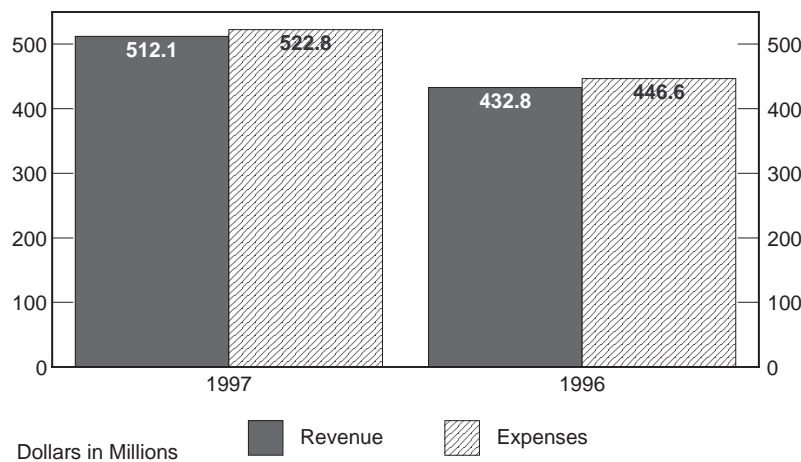
ENTITY REVENUE AND EXPENSES

Entity revenue represents the Bureau's appropriations and

financing sources used to fund its mission. Revenue includes reimbursement for services provided to others. The Bureau incurs expenses in excess of revenue for each fiscal year due to unfunded contingency and actuarial liabilities, which are expensed in the year they are recognized as liabilities.

Expenses reflect program and operating costs, depreciation, amortization, and changes in Federal Employees Compensation Act actuarial liabilities. Expenses also include bad debts, Prompt Pay Act interest paid, and losses on the disposition of assets.

ENTITY REVENUE AND EXPENSES



REVENUE MANAGEMENT

ATF ensures the collection of Federal Excise Tax and protection of the revenue through a system of laws, regulations, tax returns, permits, bonds, and disbursement (refund) functions in accordance with the Internal Revenue Code of 1986. The Bureau collects, records and accounts for a variety of taxes and registration and license fees from the alcohol, tobacco, firearms, ammunition and explosives industries. *None of the non-entity revenue collected by ATF is used in any Bureau operations; all funds are transferred to the Treasury or other Federal agencies for further distribution in accordance with various laws and regulations.*

Responsibility for collection of taxes and fees belongs to the regulatory enforcement offices. In FY 1996, the Bureau began a six-year effort to consolidate the five Technical Services offices located throughout the country into a single office located in Cincinnati, Ohio, which is also the site of ATF's Tax Processing Center. The consolidation goals are to integrate and streamline administrative and technical functions, increase overall effectiveness, and realize cost savings. ATF expects that claims refund and tax return processing will improve through efficiency and consistency.

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REVENUE SOURCES

Tax and fee revenue dollars are presented as "gross" revenue before refunds and include related interest and penalties.

Alcohol and Tobacco Excise Tax

ATF collects taxes from manufacturers of alcohol and tobacco products. Taxes are generally levied at the manufacturer level when products are removed from the business premises. For FYs 1997 and 1996, the Bureau collected \$12.5 billion and \$12.4 billion, respectively, in excise taxes on alcohol and tobacco products.

Firearms and Ammunition Tax

Section 4181 of the Internal Revenue Code imposes taxes on the sale or use of firearms and ammunition by the manufacturer, producer, or importer of the article. ATF assumed the responsibility for collection of the firearms and ammunition excise tax from the Internal Revenue Service in January, 1991. ATF collected \$149.0 million and \$161.0 million in excise taxes on firearms and ammunition sales in FYs 1997 and 1996, respectively. The Pittman-Robertson Wildlife Restoration Act of 1937 requires that the entire revenue (less refund payments) collected from Federal firearms and ammunition

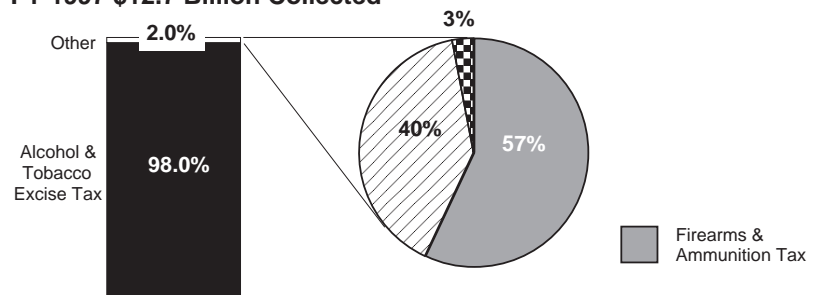
excise taxes be transferred to the Interior Department's Federal Aid to Wildlife Restoration Fund to support their mission.

Special Occupational Tax

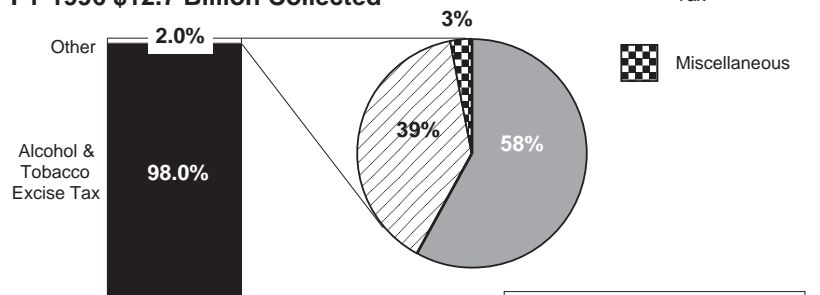
ATF collects the Special Occupational Tax imposed by Section 5121 of the Internal Revenue Code on certain alcohol, tobacco and firearms businesses. This tax is due annually on July 1, and is applicable to producers, wholesalers, and retailers of alcohol beverages, manufacturers of tobacco products, and dealers/users of industrial alcohol, as

TAX AND FEE REVENUE

FY 1997 \$12.7 Billion Collected



FY 1996 \$12.7 Billion Collected



Miscellaneous: Import, Firearms/Explosives Fees, NFA Making & Transfer Tax, Offers-in-Compromise, & Floor Stocks Tax

Gross Revenue Before Refund Disbursements

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well as to importers, manufacturers, and dealers in National Firearms Act firearms (e.g., machine guns). For FYs 1997 and 1996, \$106.7 million and \$108.3 million, respectively, was generated in Special Occupational Taxes.

Import Fees Firearms/Explosives Fees

The Bureau collects registration fees from persons engaged in importing firearms, ammunition, and implements of war as mandated by the Arms Export Control Act. ATF's licensing center in Atlanta, Georgia processes applications for firearms licenses (to manufacture, import, deal in, and collect firearms) and explosives licenses (to manufacture, import, deal in, and use explosives). Combined collections for these fees were \$4.3 million and \$5.0 million in FYs 1997 and 1996, respectively.

National Firearms Act Making and Transfer Tax

Additional taxes are imposed on the making and transferring of Title II firearms by persons not subject to the Special Occupational Tax. (Title II firearms include machine guns, short-barreled rifles or shotguns, silencers, and destructive devices.) The Bureau collected \$1.7 million and \$1.4 million in National Firearms Act Making and

Transfer Taxes during FYs 1997 and 1996, respectively.

Offers-in-Compromise

The Bureau negotiates offers-in-compromise on receivables for taxes, penalties and interest that have already been assessed but not collected due to taxpayer inability or unwillingness to pay. Additionally, the Federal Alcohol Administration Act imposes monetary penalties for violations of trade practices, labeling, or advertising by beverage alcohol businesses. Under certain circumstances, ATF accepts these reduced offers of payments from assessed parties rather than write off the entire assessed amount due as uncollectible. For FYs 1997 and 1996, the Bureau collected \$588 thousand and \$82 thousand, respectively, in offers-in-compromise.

Floor Stocks Tax

Collection of a floor stocks tax is generally required when an excise tax is first imposed or increased on a particular commodity. The manufacturer, importer, distributor, or retailer must inventory the commodity on-hand as of the effective date of the legislation and pay any incremental taxes on these goods in inventory. In FY 1997, the Bureau collected \$34 thousand in floor stocks taxes imposed in prior years. FY 1996's collection of floor stocks taxes totaled \$103 thousand.

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TAX AND FEE REFUNDS

In addition to collecting revenue, ATF makes various types of disbursements for taxes and fees paid to the Federal Government. Disbursement amounts include accounts payable accrued as of September 30, 1997 and 1996.

Manufacturers of Non-Beverage Products

Manufacturers may file claims to recover (drawback) all but \$1 per proof gallon on excise taxes paid on distilled spirits used in the manufacture or production of medicines, medicinal preparations, food products, flavors, or flavoring extracts which are unfit for beverage purposes. For FYs 1997 and 1996, \$235.0 million and \$235.9 million, respectively, was refunded to manufacturers as drawback for taxes paid on alcohol used in non-beverage alcohol products.

Cover Over Payments to Puerto Rico and the Virgin Islands

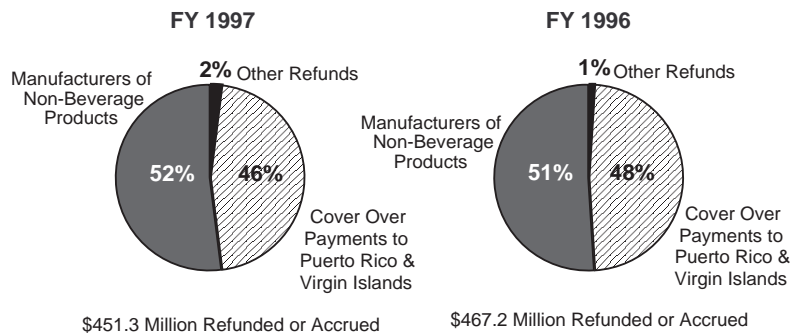
The Internal Revenue Code of 1986, as amended (26 U.S.C. 5314 and 7652) provides that taxes collected on articles produced in Puerto Rico and the Virgin Islands transported to the United States (less the estimated amount necessary for payment of refunds and drawbacks) shall be covered over (paid to) to the treasuries of Puerto Rico and the Virgin Islands. ATF's responsibil-

ity is to ensure the collection of these taxes on distilled spirits, wine, beer and tobacco products, and to determine amounts to be paid to the insular governments.

The Treasury of Puerto Rico is paid directly from the excise taxes collected by ATF on a monthly basis. Excise tax payments are based on Secretary of the Treasury approved prescribed formulae for bulk and cased distilled spirits from Puerto Rico. Excise tax payments generated from rum imports from other foreign sources are also paid directly to the treasuries of the Virgin Islands and Puerto Rico on a monthly basis.

The Government of the Virgin Islands receives a fiscal year advance of funds based on agreed upon domestic rum production estimates made by their treasury and the U.S. Department of the Interior. ATF provides actual tax

REVENUE TAX AND FEE REFUNDS



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payment and usage data to the Department of the Interior on a monthly basis to ensure that the Government of the Virgin Islands receives full payment. Disbursements to the governments of Puerto Rico and the Virgin Islands totaled \$208.0 million in FY 1997 and \$223.7 million in FY 1996.

Other Refunds

ATF refunds fees paid in advance by those applicants who do not meet the criteria to qualify for a license or permit. Additional refunds are made for approved taxpayer claims of overpayment in all categories of revenue. ATF refunded \$8.3 million in FY 1997 and \$7.6 million in FY 1996 for these claims.

FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT 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.

POLICIES AND PROCEDURES

Successful initiatives that began during FY 1995 (emphasis on improving organization, policies and procedures, and systems) were continued throughout FY 1997. The Bureau actively

pursued corrective actions to address the reportable conditions discovered by the OIG in their FY 1996 audit of the Bureau's Statement of Financial Position:

Strengthen Controls Over Personnel/Payroll Processing

Status and Accomplishments: *In Progress.* Checklists for personnel/payroll actions (accessions, reassignments, etc.) are

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being developed. The new automated Time and Attendance system referred to as the Simplified Time and Attendance Tracking System was implemented bureau-wide. ATF initiated paperwork to the National Finance Center to have the one percent agency contribution for Thrift Savings Plan corrected for all of the Bureau's employees identified in which the contribution did not begin in the correct period. A second reconciliation worksheet was implemented that more clearly shows the current status of payroll charges to the organization and highlights any differences between the Bureau's general ledger and the National Finance Center Abstract of Transactions and the monthly TFS-6653. Procedures for filing payroll documents have been improved to ensure that filing is both expedient and complete.

Improve Procedures to Record Property and Equipment Disposals Timely

Status and Accomplishments:
Complete. A letter and accompanying instructions to Special Agents in Charge and Division Chiefs, that transmit the annual capitalized property inventory, was sent to the field on September 7, 1997. The letter emphasized to property managers the importance of timely

processing and inclusion of all documentation related to the acquisition, transfer and disposal of personal property and its importance in the successful inventory process.

Strengthen Controls Over the Federal Excise Tax Database

Status and Accomplishments:
In progress. ATF hired two Error Resolution Clerks to oversee the accuracy and timely processing of entries entered into the Federal Excise Tax Database. A check system is being established which will run the Electronic Funds Transfer payments against the Technical Service System database payments.

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Consider the Rotation of Inspectors in the Inspection Targeting Program

Status and Accomplishments:

In progress. A brief is being prepared to require periodic rotation of inspectors conducting revenue inspections pursuant to the Inspection Targeting Program or other recurring assignments.

Improve Controls Over Accountability for Seized Property

Status and Accomplishments:

In progress. ATF conducted a mid-year inventory of seized/forfeited property, comparing the Consolidated Asset Tracking Report against the vault evidence log. A log was developed to track changes to seized property status. In addition, forwarded with the mid-year inventory were specific inventory procedures, standard addition/deletion sheets, and certification statements to be signed by agents completing review and the immediate supervisor. The new ATF 3400.1A (Property Taken Into Bureau Custody Order), which was approved and became effective on October 12, 1997, reflects

the new organizational assignment of the Asset Forfeiture and Seized Property within Bureau headquarters to the Office of Management.

Enhance Controls Over the Information Security Management Function

Status and Accomplishments:

In progress. In July, 1997, ATF finalized an Automated Information Security Policy Order incorporating all current, pertinent Federal information security standards. This policy provides guidance to Bureau employees and management concerning their roles and responsibilities within the ATF information security environment. Additionally, the Bureau issued a policy letter advising all application systems owners of their ownership security and operational responsibilities. Future efforts will focus on establishing a certification and accreditation process for all major Bureau information systems.

Improve Effectiveness of Access Control Software

Status and Accomplishments:

In progress. ATF currently is re-evaluating its mainframe applications environment. The RACF

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software has been adjusted by the Systems Programmer to capture and record instances of attempts to access the system, whether successful or not. The Bureau will also conduct an inventory of user community with access privileges to databases on both the mainframe and Network/Personal Computer platforms.

Implement Adequate Separation of Duties

Status and Accomplishments:

In progress. ATF acquired a software configuration package named ENDEAVOR. A final evaluation of ENDEAVOR determined that additional investment in this product would not be cost effective for ATF.

ATF will embark on a new strategy to address configuration management or the change control process for its remaining mainframe applications. The Bureau plans on creating two professional groups to administer the change control process. These groups will have a multitude of roles and responsibilities to ensure a cost-effective, operationally efficient, and user-friendly environment exists to assist our customers and maintain documented histories on all approved change control proposals.

Evaluate Telecommunications Security Risk

Status and Accomplishments:

In progress. ATF is currently reviewing vendor offerings to address dial-up access and encryption security. ATF tested two remote dial-in authentication and encryption software packages. A test report is currently being drafted. Installation is expected to begin as scheduled on January 31, 1998.

1997 FMFIA STATUS

ATF's FY 1997 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.

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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.

There were no new FMFIA deficiencies identified during FY 1997. One deficiency from a previous FMFIA Report was closed during FY 1997:

Title and Description: Compliance Operations Revenue Accounting System. Title since changed to Integrated Collections System. The Integrated Collections System is not fully integrated with the Bureau's core revenue accounting system (FMIS). The lack of an integrated system hinders the ability to expeditiously and effectively reconcile summary accounting and individual transaction data. Year Identified: 1988.

Status and Accomplishments: *Complete.* Accounting for revenue collections and disbursements is fully integrated with the FMIS and under one general ledger with administrative accounting (since FY 1994). Work remains on integrating the FMIS with subsidiary tax and fee databases, which will comprise the Integrated Collections System when fully developed. In FY 1996, software was implemented that permits the reconciliation of FMIS accounting data with regulatory tax and fee databases for refund claims and cover over payments. Development of an entire revenue system with full integration of program management and accounting functions is a long-term effort currently anticipated to be completed by FY 1999.

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MANAGEMENT RESPONSIBILITIES

Bureau management is responsible for the fair presentation of information contained in the principal financial statements, in conformity with the accounting hierarchy described in Note 1, Summary of Significant Accounting Policies, which constitutes an “other comprehensive basis of accounting.” Management is also responsible for the fair presentation of ATF’s performance measures in accordance with Office of Management and Budget requirements. The quality of the Bureau’s internal control structure rests with management, as well as the responsibility for identification and compliance with pertinent laws and regulations.

LIMITATIONS OF FINANCIAL STATEMENTS

The financial statements were prepared to report the financial position and results of operations pursuant to the CFO Act of 1990. The Bureau prepared the statements from the books and records of ATF according to formats prescribed by the Office of Management and Budget. However, these statements differ from the financial reports used to monitor and control budgetary resources that are prepared from the same books and records.

The statements should be read with the realization that they are for a component of a sovereign entity, that liabilities not covered by budgetary resources cannot be liquidated without the enactment of an appropriation, and that the payment of all liabilities other than for contracts can be abrogated by the sovereign entity.