

**REVENUE COLLECTION:
Additional Corrective Actions Needed To
Improve ATF's Revenue Inspection Program**

OIG-01-083

August 1, 2001

This report has been reviewed for public dissemination by the Office of Counsel to the Inspector General. Information requiring protection from public dissemination has been redacted from this report in accordance with the Freedom of Information Act, 5 U.S.C. section 552.



Office of Inspector General

The Department of the Treasury

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Abbreviations

ATF	Bureau of Alcohol, Tobacco and Firearms
A&T	Office of Alcohol and Tobacco
DSP	Distilled Spirits Plant
FAA	Federal Alcohol Administration
FY	Fiscal Year
GAO	General Accounting Office
IRC	Internal Revenue Code
ITC	Treasury's Inventory Tracking and Closure System
ITP	Inspection Targeting Program
NRC	National Revenue Center
OIG	Office of Inspector General
OPM	Office of Personnel Management
PPC	Policy and Programs Coordination Staff

*The Department of the Treasury
Office of Inspector General*

August 1, 2001

Bradley A. Buckles
Director
Bureau of Alcohol, Tobacco and Firearms

We conducted a follow-up audit of the Bureau of Alcohol, Tobacco and Firearms' (ATF) Tax Compliance Inspection Program. ATF's inspectors conduct tax compliance inspections¹ of wineries, breweries, distilled spirits plants (DSP), tobacco manufacturers, export warehouses, and firearms and ammunition manufacturers.

We conducted this follow-up audit of ATF as part of our Fiscal Year (FY) 2000 audit plan. Our primary objective was to determine whether ATF had taken corrective actions to address the six recommendations contained in a September 15, 1994, Office of Inspector General (OIG) audit report, *Bureau of Alcohol, Tobacco, and Firearms: Tax Compliance Inspection Improvements Needed* (OIG-94-143). We conducted our audit fieldwork from August 2000 to April 2001 at ATF Headquarters. A more detailed description of the audit objectives, scope, and methodology is provided as Appendix 1.

Results in Brief

ATF has to some extent addressed each of the six recommendations in the prior audit report. However, ATF needs to do more work on three of the recommendations. For example, although ATF developed several performance measures related to its "Collect the Revenue" strategy, the measures do not specifically relate to the outcomes of the revenue inspection program. Additionally, while ATF Headquarters advised and directed its field offices about documenting inspection work steps, ATF has done little to validate progress in that area.

¹ Throughout this report, the terms "tax compliance inspection," "revenue inspection," and "revenue examination" are used interchangeably and have the same meaning.

Finally, although ATF also contacted the Office of Personnel Management (OPM) regarding changing the qualifications for its inspectors, it did not conduct a full-blown study of the issue as recommended by OPM.

Based on our follow-up of the prior audit report's recommendations and evaluation of ATF's corrective actions, we made three recommendations to address concerns we identified. We recommend that the ATF Director: (1) require the Assistant Director, Alcohol and Tobacco, to develop and test additional performance measures for the revenue inspection program; (2) conduct more operational reviews of field offices to ensure inspectors comply with documentation requirements; and (3) implement a training program that ensures all inspectors are properly trained on how to conduct revenue examinations.

ATF management concurred with the findings and recommendations. ATF said it would develop performance measures in FY 2002 for the alcohol and tobacco revenue inspection program. Additionally, the Office of Alcohol and Tobacco will partner with the Office of Inspections in FY 2002 when they conduct internal operational reviews. Finally, ATF is in the process of conducting its first advanced alcohol and tobacco training class during July-August 2001. ATF plans to conduct two more of the courses in the near future.

We believe the completion of these corrective actions will improve ATF's revenue inspection program. The complete text of ATF's response is provided in Appendix 2.

Background

ATF is a law enforcement organization within the Department of the Treasury with unique responsibilities dedicated to reducing violent crime, collecting revenue, and protecting the public. Among its many responsibilities, ATF enforces Federal laws and regulations relating to alcohol and tobacco by working directly and in cooperation with others to ensure fair and proper revenue collection.

One of the goals of ATF's alcohol and tobacco programs is to ensure the collection of alcohol and tobacco excise taxes. During FY 2000, approximately 5,000 taxpayers consisting of DSPs, breweries,

wineries, and tobacco product manufacturers remitted in excess of \$13 billion in excise taxes.²

In collecting alcohol and tobacco excise taxes, ATF relies on voluntary industry compliance augmented by ATF Specialists at the National Revenue Center in Cincinnati, Ohio, and ATF Inspectors assigned to various field locations. Among other duties, ATF's specialists review industry monthly reports and excise tax returns, and identify high-risk taxpayers for inspection. ATF's field inspectors perform on-site revenue examinations of the taxpayers.

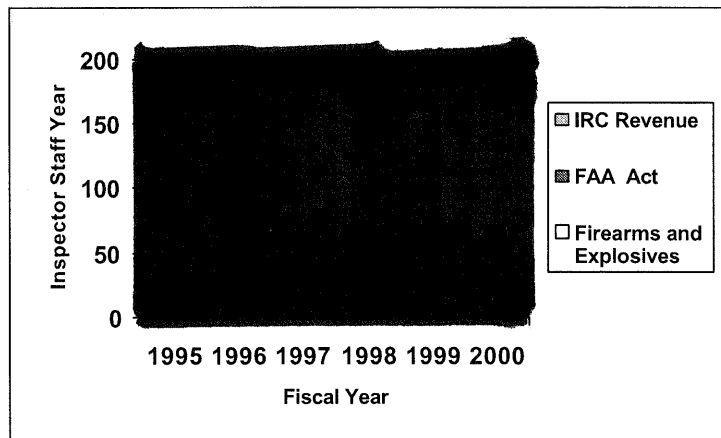
Revenue examinations typically include an evaluation of [REDACTED]

On-site inspections of those who pay excise taxes are focused on facilities posing the greatest risk to the revenue, based on [REDACTED]

Between 1998 and 1999, there was a significant drop in inspector staff years, from [REDACTED] staff years in FY 1998 to [REDACTED] in FY 1999. A Field Management Staff employee said several reasons were possible for this, but most likely a large number of inspectors separated after 1998. We also noted that over the last several years, the amount of resources ATF has devoted to revenue plant inspections has been declining, as noted by the following chart:

² In addition to these taxpayers, there are approximately 3,800 firearms and ammunition manufacturers that also remit Federal excise taxes. The scope of this audit excluded these taxpayers because the OIG recently completed a separate audit on these entities (*Bureau of Alcohol, Tobacco and Firearms Compliance Inspection Strategy for Firearms and Ammunition Excise Taxes*, OIG-00-080, issued April 18, 2000).

**Chart 1: Allocation of Inspector Staff Years
FYs 1995 To 2000**



Source: ATF Headquarters

IRC (Internal Revenue Code) Revenue activity includes on-site inspections of alcohol and tobacco plants, the subject of this report. FAA (Federal Alcohol Administration) Act activity includes alcohol application, product integrity, labeling, marketing integrity, and liaison activity. Firearms and Explosives activity includes application and compliance inspections of those industries.

As shown by the chart, the number of staff years ATF allocated to on-site revenue examinations dropped from [redacted] staff years in FY 1995 to just [redacted] staff years in FY 1999 (although it increased slightly to [redacted] staff years in FY 2000). ATF attributed the significant decrease in on-site revenue inspection to staff attrition and, in recent years, an increasing emphasis on conducting inspections in the firearms and explosives industries. From FYs 1995 to 1998, Firearms and Explosives examinations remained stable. After dropping to [redacted] staff years in FY 1999, they rose significantly in FY 2000 to [redacted] staff years.

ATF significantly changed its revenue inspection program since we issued our September 1994 audit report. ATF implemented a new inspection targeting program and issued new internal control instruments in FY 2000. Due to the effective date of these program changes and our audit fieldwork, we were unable to determine whether the changes have improved ATF's revenue inspection program.

ATF also did not perform many inspections using these new procedures at the time we conducted our fieldwork. ATF was forced to shift inspector resources to Firearms and Explosives for a good part of the year. Accordingly, we plan to conduct a future audit to assess the effectiveness of the program changes, including the success of the new targeting program and the quality of the inspections being conducted.

Findings and Recommendations

Finding 1 Further Work Needed On Prior Recommendations

We found ATF had taken corrective actions on the six recommendations contained in an OIG report titled *Bureau of Alcohol, Tobacco, and Firearms: Tax Compliance Inspection Improvements Needed* (OIG-94-143, issued September 15, 1994). However, ATF did not fully meet the intent of those original recommendations. Specifically, ATF did not develop sufficient performance measures for the revenue inspection program. Also, ATF did little to ensure inspectors were complying with inspection documentation requirements. Finally, ATF did not do enough to ensure that inspectors had the necessary training to adequately conduct revenue examinations.

The following sections detail each of the prior audit report's findings and recommendations, and the OIG's follow-up evaluation of corrective action. We also included three new recommendations.

Prior Recommendation 1: Performance Measurement System

In our September 1994 audit report, we had difficulty determining whether ATF conducted effective inspections because ATF did not summarize data on inspection results. ATF had maintained data on tax adjustments resulting from inspections; however, this data did not enable us to reach conclusions about program results. Data that would have helped would have included the nature of violations identified, corrections needed in producer record-keeping, and internal control weaknesses.

The report said there was no apparent relationship between the amount of revenue identified during the compliance inspections to other factors, such as (1) the number of inspections ATF conducted or the number of hours expended conducting them, (2) total tax liability of those plants inspected, or (3) implementation of ATF's targeting program, which was designed to better select plants based on assigned level of risk.

We recommended the Director, ATF, develop a performance measurement system for the alcohol and tobacco tax compliance program that more systematically recorded, summarized, and analyzed the data from its tax compliance inspection efforts. ATF concurred with the recommendation. ATF said it already accumulated, summarized, and analyzed a great deal of data regarding its inspections, but agreed more could be done. By the start of FY 1996, ATF said it would expand the data it accumulated so that it could better measure inspection results.

OIG Follow-up Evaluation of Corrective Action

According to the Treasury Department's Inventory Tracking and Closure System (ITC), ATF closed the recommendation on July 22, 1997. ATF reported it developed performance measures that would be tested during FY 1998 and fully implemented during FY 1999. These performance measures would enable ATF to identify the "tax gap" as it applies to the segment of the related industry each year. Within a span of 3 to 5 years, ATF should have identified any tax gaps that may have existed, as well as strategies for closing those gaps. The performance measures were to be tested, evaluated, and revised, as appropriate.

In August 2000, we met with the Chief, Revenue Division, ATF Headquarters, to obtain details about the performance measures ATF said it developed. The Chief provided us with copies of ATF's draft Strategic Plan, which listed ATF's strategic goals related to its "Collect the Revenue" activity. She also provided another document labeled "Collect the Revenue Strategy Performance Measures." This unsigned and undated document listed performance measures for FYs 2000, 2001, and 2002.

For FY 2000, the document listed three performance measures: (1) taxes/fees collected from alcohol, tobacco, firearms, and explosives industries; (2) ratio of taxes collected versus resources expended; and (3) burden hours reduced. ATF included these three performance measures in its FYs 1998, 1999, and 2000 Accountability Reports. We note that none of these measures specifically relates to the revenue inspection program.

The Chief, Policy and Programs Coordination Staff, Office of Alcohol and Tobacco (A&T), indicated that these measures were not developed as a result of the September 1994 audit report. He added that the Chief, National Revenue Center, believes better measures are needed to measure the outcomes of the revenue program.

We recognize ATF continues to develop performance measures for its revenue inspection program. While it has developed some measures, ATF needs to do more to be in compliance with the intent of our original recommendation. Performance measures such as “ratio of additional taxes collected versus direct resources expended” provide ATF with the financial benefits derived from conducting revenue inspections. However, ATF needs to develop other measures that can provide ATF with more information about how well industries are complying with excise tax regulations. These include, but are not limited to, the number of IRC violations by type of activity/operation per inspection, and the percentage of targeted plants with tax errors.

Recommendation

1. The Director, ATF, should require the Assistant Director, Alcohol and Tobacco, to develop and test additional performance measures for the Alcohol and Tobacco revenue inspection program. The purpose of these additional measures should allow ATF to measure whether the program is effective in ensuring industries are paying all the revenue due the government and operating in accordance with regulations.

Management Comment. ATF management agreed with the recommendation. ATF said during FY 2002 it would develop performance measures for the revenue inspection program.

OIG Evaluation. The OIG believes the corrective actions planned address the intent of the recommendation.

Prior Recommendation 2: Specialist Questionnaire

The OIG's September 1994 report identified that several problems hampered the effectiveness of ATF's former Inspection Targeting Program (ITP). First, the specialist questionnaire, which ATF used in ITP to assess revenue risk, did not consider certain tax liability issues. Second, ATF field supervisors did not perform (or document the reasons why) 32 percent of plants were selected by the ITP. Finally, scoring of questionnaires used to develop the FY 1993 inspection plan was not accurate due to a Headquarters computer malfunction.

We recommended the Director, ATF, direct the specialist questionnaire be revised to ensure all data that affected compliance risk were adequately considered in developing the ITP rankings. At the time of the prior audit, ATF officials indicated they had already taken appropriate action regarding documenting deviations from the ITP and verifying computer-generated ITP scores. Thus, no other recommendations were made. ATF concurred with the recommendation to revise the specialist questionnaire and said it would implement it as a part of the FY 1996 planning process.

OIG Follow-up Evaluation of Corrective Action

ATF revised the specialist questionnaire to include questions pertaining to wine and flavor credits and free-of-tax exports. However, in FY 2000, ATF implemented a new inspection targeting program and no longer uses the questionnaire. Thus, the recommendation is no longer applicable. We plan to review this program in a future audit.

Prior Recommendation 3: Documentation of Inspection Work Steps

Our September 1994 audit report questioned the quality of tax compliance inspections that ATF inspectors performed. Inspectors often did not document whether specific work steps were actually performed, particularly as they related to evaluation of [REDACTED] and [REDACTED]. The OIG recommended that the

Director, ATF, require that Compliance Operations³ ensure tax compliance inspection work steps, [REDACTED] and [REDACTED] were adequately documented by the regions. ATF concurred with the recommendation and said it would advise the field offices of the problems we identified and direct them to comply. ATF also said it would evaluate progress in this area through operation reviews and other review mechanisms.

OIG Follow-up Evaluation of Corrective Action

As a result of this recommendation, the Chief, Revenue Programs Division, sent a memorandum to ATF's Regional Directors (Compliance)⁴ regarding documentation of inspections. The memorandum instructed the Regional Directors to advise inspectors about the OIG's audit findings and their need to ensure there is adequate documentation of inspections. Specifically, the Regional Directors were to advise inspectors to fully document the inspection steps they performed. Further, where a decision was made to omit a step, that fact and the reason for the decision should be noted. The Regional Directors were also instructed to advise supervisors in their regions to provide a sufficient level of oversight during the inspection process to ensure all required work steps were performed, except where there were sound reasons to omit specific steps.

ATF has done little to validate whether its field offices have made progress in this area. While ATF's Office of Inspection goes out to ATF field offices to conduct reviews, they focus more on administrative issues, such as time and attendance, procedures, and filing, and conduct only limited reviews of operational issues.

According to the Chief, Policy and Programs Coordination (PPC) Staff, A&T, several members of his staff recently accompanied the Office of Inspection team on two reviews of field division offices.

³ Compliance Operations, an ATF Headquarters Division, no longer exists. Prior to October 1, 1998, ATF had separate regulatory and criminal enforcement functions that operated under separate planning and implementing functions. There were 5 regulatory district offices and 23 criminal enforcement division offices. After that date, these offices were merged creating new unified structures in 23 locations.

⁴ A Division Director/Special Agent in Charge (DD/SAC) heads each of the current 23 division offices. Reporting to the DD/SAC is a Director of Industry Operations who oversees the industry and tax operations of the district.

During these site visits, the PPC staff reviewed the quality of the revenue inspections, including a determination as to whether the inspectors were completing and documenting all required work steps. Based on these reviews, A&T partnered with the Office of Field Operations and issued a memorandum to all Division Directors regarding inspection reports. The memorandum, dated April 30, 2001, indicated past reviews by the OIG and ATF's Office of Inspection had cited numerous deficiencies in the reporting of inspection findings. The memorandum reminded area supervisors they were responsible for thoroughly reviewing inspection reports and ensuring that proper inspection data was being entered into ATF's inspection information system (N-spect).

We plan to conduct a future audit to assess the effectiveness of the program changes, including the success of the new targeting program and the quality of the inspections ATF is conducting.

Recommendation

2. The Director, ATF, should conduct more operational reviews of field offices to ensure inspectors are compiling with inspection documentation requirements.

Management Comment. ATF management agreed with the recommendation. The Office of Alcohol and Tobacco will partner with the Office of Inspection when conducting internal operational reviews.

OIG Evaluation. The OIG believes the corrective actions planned address the intent of the recommendation.

Prior Recommendation 4: Inspector Training

Our September 1994 audit report said inspectors' limited accounting knowledge raised questions about their ability to adequately assess producer accounting systems and controls. In addition, while ATF worked to increase the accounting knowledge of its inspectors, 57 percent of these inspectors had less accounting training than ATF preferred. We recommended that the ATF Director discuss with OPM, once again, the possibility of requiring accounting training for the

inspector position, and consider replacing vacated inspector positions with individuals having at least 12 hours of accounting training.

In response to the recommendation, ATF said it would complete a study in which it would re-evaluate the relationship between the inspector position and accounting credits. Based on the results of the study, ATF would take appropriate action that may include the specific steps recommended by audit. ATF said it would inform us of the results of the study and any implementation plans.

OIG Follow-Up Evaluation of Corrective Action

ATF sent a request to OPM on February 21, 1995, to change the qualifications for the inspector position (1854 series). According to an ATF official's notes of a telephone conversation, OPM believed a full-blown study needed to be done to determine why the General Accounting Office (GAO)⁵ and ATF believed 1854s could not successfully perform without formal education. OPM wanted to know how many people had to be fired because they lacked the proper education to fulfill their duties or how many had to be put on a performance improvement plan.

Based on discussions with staff from ATF's Office of Inspection and PPC, we determined that ATF never conducted the study. When we discussed this issue with the Chief, Field Management Staff, in August 2000, she stated the qualifications for the inspector position had not changed. ATF will pay for accounting training should inspectors request it; however, it is not a requirement.

Discussions with the Chief, PPC, indicate the level of revenue examination training given to new inspectors is minimal. The New Professional Training given to new inspectors since 1998 has eliminated most of the revenue audit training and focuses mainly on ATF's firearms and explosives programs. This fact, coupled with the fact that many of ATF's most experienced revenue inspectors have retired or will do so in the next few years, indicates that ATF will be left with an inspector workforce with little or no experience to conduct effective revenue examinations in the future.

⁵ Our prior audit report noted that, in March 1991, GAO concluded inspections could be more effective if inspectors had more accounting knowledge.

Recommendation

3. The Director, ATF, should implement a training program that ensures all inspectors are properly trained on how to conduct revenue examinations.

Management Comment. ATF concurred with the recommendation. ATF is in the process of conducting its first advance alcohol and tobacco training class and plans to conduct two others classes in the near future.

OIG Evaluation. The OIG believes the corrective actions taken and planned address the intent of the recommendation.

Prior Recommendations 5 & 6: Free-of-Tax Exports

Alcohol beverage and tobacco products may be exported tax-free provided the taxpayer provides ATF with acceptable, complete, and accurate proof of the exportation. ATF's internal processing procedures require that export documentation be provided to ATF within 90 days of the claimed shipment date. If ATF does not receive the required documentation within 90 days, ATF is required to send a proposed assessment letter to the taxpayer. If no documentation is received 45 days after the letter has been sent, ATF is supposed to proceed with a tax assessment covering the quantity of goods claimed to have been exported.

Our September 1994 audit found free-of-tax exports were not always promptly or properly validated. The report said there were no incentives for plants to promptly provide the supporting documentation for free-of-tax exports. Further, two of ATF's former regional offices were not always promptly assessing tax and interest due when the plants did not provide supporting documentation within the required, 135-day timeframe.

We made two recommendations to address this area. First, we recommended the Director, ATF, require Compliance Operations to review the time limit established under ATF Order 5020.8A of 135 days for providing proof of export to either validate the established limit or set a new time limit. We also recommended the Director explore a

statutory change to allow ATF to take enforcement action, such as a monetary penalty, against alcohol and tobacco exporters who consistently fail to provide evidence of export within the prescribed period. ATF concurred with both recommendations. ATF said it would review the time limits and revise them if appropriate, and would study the feasibility of recommending a statutory change.

OIG Follow-up Evaluation of Corrective Action

ATF did not change the timeframes associated with export documentation. When we conducted two recent export audits of distilled spirits and tobacco products⁶, ATF's internal procedures still contained the 135-day timeframe for reviewing export documentation. Regarding the second recommendation, ATF said that its regulatory management staff and Chief Counsel discussed the feasibility of the recommended statutory change. ATF determined that such a change would not increase the rate of compliance nor would the Congress be apt to pass such a law. Accordingly, ATF implemented no changes over the export documentation review process.

The two more recent OIG audits of controls over tax-free exports of distilled spirits and tobacco products found the documentation problems still existed, and may have become worse. Specifically, these audits found ATF had either inadequate or no documentation for numerous exportations, and documentation containing technical violations. Both reports noted a significant number of the exports were considered "open," that is, ATF had either not received the export documentation proof, or had not yet reviewed the documentation. Furthermore, the majority of these shipments exceeded the 135-day limitation, and ATF should have assessed these taxpayers millions of dollars in excise tax plus interest.

A significant portion of the recent export documentation problems can be attributed to extensive organizational changes ATF has experienced over the last several years. In FY 1996, ATF initiated a 5-year plan to consolidate the business processes of its five regional technical services offices and a tax processing center into a centralized business center known as the National Revenue Center (NRC). As a

⁶ *Bureau of Alcohol, Tobacco and Firearms Controls Over Tax Free Spirit Exports*, OIG-99-123, September 15, 1999, and *The Bureau of Alcohol, Tobacco and Firearms Needs to Improve its Controls Over Tax-Free Tobacco Exports*, OIG-01-019, November 13, 2000.

result of these organizational changes and reduced staffing, ATF was forced to prioritize workload assignments.

As a result of the two more recent audits, we made 15 additional recommendations designed to improve controls over the exportation of distilled spirits and tobacco products. We plan to assess the effectiveness of ATF's corrective actions related to these recommendations during a future audit. We believe when ATF completes the corrective actions associated with the more recent findings and recommendations, ATF will achieve improved controls over the tax-free exportation of alcohol and tobacco products.

ATF has already taken corrective action on some of these recommendations. For example, in July 2000, ATF issued *Industry Circular Number 2000-2, Exportation of Distilled Spirits, Wine, Beer, and Tobacco Products Without Payment of Tax*. This Circular, issued to all proprietors of DSPs, bonded wine premises, breweries, tobacco manufacturers and export warehouses, clarified ATF's position on the types of export shipments allowable without payment of tax, and the kinds of documentation ATF would consider as acceptable proof of export for each type of shipment. It also reminds proprietors that failure to provide satisfactory proof of export may subject them to liability for the excise tax plus interest.

ATF said it also issued the Circular to all of its specialists and senior clerks, discussed them in detail by unit supervisors at meetings with their employees, and provided NRC employees on-the-job training on the requirements for reviewing or auditing export documentation.

We believe that, if ATF fully implements all of the recommendations we made during our two recent reviews of distilled spirits and tobacco exports, the intent of the 1994 recommendations would be satisfied. Accordingly, we are not making any additional recommendations at this time.

* * * * *

We would like to extend our appreciation to ATF for the cooperation and courtesies extended to our staff during the review. If you have any questions, please contact me at (617) 223-8640, or a member of your staff may contact Dennis Deely, Audit Manager, at (856) 968-4907,

extension 248. Major contributors to this report are listed in Appendix 3.

/s/

Donald P. Benson

Regional Inspector General for Audit

The overall objective of our audit was to determine whether ATF implemented corrective actions to address the six recommendations contained in our prior audit report entitled, *Bureau of Alcohol, Tobacco, and Firearms: Tax Compliance Inspection Improvements Needed*, OIG-94-143, issued September 15, 1994.

To conduct our audit, we obtained information from ATF's internet site (www.atf.treas.gov) on its mission, vision, and values, and ATF's Strategic Plan.

We conducted various interviews of the Chief, Policy and Programs Coordination Staff and the Chief, Revenue Division (Office of Alcohol and Tobacco) to obtain background information and an overview of ATF's revenue inspection program.

We interviewed the Assistant to the Special Agent in Charge, Inspection Division (Office of Inspection) and a member of his staff regarding their role in monitoring OIG recommendations. We obtained and reviewed the file of information the staff member maintained on the September 1994 audit report. He used this information, such as certificates of completion and other forms of documentation, to close out recommendations in the Treasury's Inventory Tracking and Closure System (ITC).

Based on the information contained in the Office of Inspection file, we conducted follow-up interviews of knowledgeable officials as needed for specific recommendations. For example, regarding performance measures for the revenue inspection program, we contacted the Chief, Revenue Division, the Program Manager at the National Revenue Center in Cincinnati, OH, and the Chief, Policy Programs and Coordination Staff.

We interviewed the Chief, Field Management Staff, to obtain information about training for inspectors, staffing, operating plans and final reports, as well as other background information.

We reviewed two OIG audit reports pertaining to free-of-tax exports issued after the September 1994 audit report. The two reports were, *Bureau of Alcohol, Tobacco and Firearms Controls Over Tax Free Spirit Exports*, OIG-99-123, September 15, 1999, and *The Bureau*

of Alcohol, Tobacco and Firearms Needs to Improve its Controls Over Tax-Free Tobacco Exports, OIG-01-019, November 13, 2000. We also obtained and reviewed ITC reports for these two reports to determine the status (open or closed) of the recommendations.

We conducted our audit between August 2000 and April 2001 in accordance with generally accepted government auditing standards.

Appendix 2
Management Comments



DIRECTOR

DEPARTMENT OF THE TREASURY
BUREAU OF ALCOHOL, TOBACCO AND FIREARMS
WASHINGTON, DC 20226

JUL 26 2001

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5200

MEMORANDUM TO: Director, Program Audits
Office of the Inspector General

FROM: Director

SUBJECT: Management Response to Office of Inspector
General's (OIG) Draft Report on the
Follow-up Audit of the Bureau of Alcohol,
Tobacco, and Firearms Revenue Inspection
Program

This is a response to the OIG's June 26, 2001, draft report which follows up on ATF's corrective actions from the September 15, 1994, OIG report titled "Bureau of Alcohol, Tobacco, and Firearms: Tax Compliance Inspection Improvements Needed (OIG-94-143)". Based on a follow-up review, the OIG stated that ATF needs to take additional actions to fully satisfy the intent of those original recommendations.

Finding 1. Further Work Needed on Prior Recommendations

The Draft Audit Report listed three specific recommendations to address this finding. We will address the actions we have taken regarding these recommendations.

Recommendation 1. ATF needs to develop and test additional performance measures for the alcohol and tobacco revenue inspection program.

We concur with this recommendation. The draft report states that ATF needs to do more to be in compliance with the intent of the original recommendation, and to develop measures that would provide ATF with better

WWW.ATF.TREAS.GOV

Appendix 2
Management Comments

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Director, Program Audits

information concerning the effectiveness of the revenue inspection program. During Fiscal Year (FY) 2002, we will develop performance measures.

Action Due Date: 9-30-02

Recommendation 2. ATF should conduct more operational reviews of field offices to ensure inspectors are complying with inspection documentation requirements.

We concur with this recommendation. During FY 2001, the Office of Alcohol and Tobacco partnered with the Office of Inspection in conducting internal operational reviews. In April 2001, the Office of Field Operations issued a memorandum citing deficiencies in the reporting of inspections. This memorandum reminded field supervisors they were responsible for thoroughly reviewing inspection reports and ensuring that proper inspection data was being entered into ATF's inspection information system (N-SPECT). During FY 2002, the Office of Alcohol and Tobacco will continue to be a part of these reviews to ensure those requirements in the April 2001, memorandum are met.

Action Due Date: Closed.

Recommendation 3. ATF should implement a training program that ensures all inspectors are properly trained how to conduct revenue examinations.

We concur with this recommendation. The level of revenue examination training given to new inspectors is minimal. New Professional Training given to new inspectors since 1998 does not offer comprehensive revenue inspection training.

During FY 2001, ATF followed through on longstanding plans to develop and initiate advanced alcohol and tobacco training, the first class is being conducted

Appendix 2
Management Comments


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Director, Program Audits

in July - August 2001. A second class is planned for October 2001 with a third tentatively scheduled for January 2002. This class will include, among other topics, development and completion of audit workplans, preparation of workpapers, preparation and use of internal control questionnaires, report writing, and documentation and reporting of findings in compliance with Government Accounting Office (GAO) and ATF Standards. All inspectors who have completed New Professional Training, initiated in 1998, will receive this training. This training will be a requirement for all new inspectors, to be completed after New Professional Training and before they reach journeyman status. In addition, the course can be adapted as refresher training for senior inspectors to ensure all required worksteps are being properly completed in accordance with ATF and GAO standards.

Action Target Date: Closed

In conclusion, we concur with all recommendations and are taking appropriate action. If you have further questions, please contact the Chief, Policy and Programs Coordination Staff, Office of Alcohol and Tobacco, at (202) 927-7953.


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