

**FINAL AUDIT REPORT ON THE
BUREAU OF ALCOHOL, TOBACCO
AND FIREARMS' EXPENDITURES
FOR THE YOUTH CRIME
GUN INTERDICTION INITIATIVE**

OIG-00-087

May 30, 2000

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

United States Department of the Treasury



OFFICE OF
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DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

May 30, 2000

MEMORANDUM FOR BRADLEY A. BUCKLES, DIRECTOR
BUREAU OF ALCOHOL, TOBACCO AND FIREARMS

FROM: Dennis S. Schindel
Assistant Inspector General for Audit

SUBJECT: Final Audit Report on the Bureau of Alcohol,
Tobacco and Firearms' Expenditures for the
Youth Crime Gun Interdiction Initiative

This memorandum transmits our final audit report on the Bureau of Alcohol, Tobacco and Firearms' (ATF) Expenditures for the Youth Crime Gun Interdiction Initiative (YCGII). The overall objective of this audit was to determine whether ATF properly managed, controlled, and used funds that were received for YCGII. Although ATF finance files showed no material error in the recording of the amount of payments made for YCGII, ATF needed to:

- Strengthen controls which will ensure that YCGII funds are spent in the most effective manner;
- Improve monitoring of procurement and contract oversight procedures; and
- Resolve inventory discrepancies and maintain accurate property records.

As a consequence of these conditions, there is an increased risk that the YCGII will not operate in as effective manner as possible and that funds appropriated for the program could be diverted to other activities. Additionally, without adequate property records there is a great risk that property could be misplaced, lost, stolen or used for purposes other than for YCGII. To illustrate, our inventory of equipment purchased for YCGII and subsequent reviews by ATF could not locate 54 computers, costing about \$120,000.

Our draft report made 11 recommendations to strengthen ATF's control over funds, procurements, contractors' work, and equipment that was purchased for the YCGII program. In its response, ATF generally agreed with our recommendations, and has initiated and planned actions to address the recommendations. We believe ATF should establish timeframes for completing all actions and provide us with documentation to support completion of actions. ATF's comments have been incorporated into the report and are included in their entirety as an appendix to the report.

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We appreciate the courtesies and cooperation provided to our auditors during our review. If you wish to discuss this report, you may contact me at (202) 927-5400, or a member of your staff may contact Roberta N. Rickey, Director, Program Audit at (312) 886-6300.

Attachment

cc: James E. Johnson, Under Secretary of the Treasury
for Enforcement

Richard Hankinson, Assistant Director
Office of Inspection

EXECUTIVE DIGEST

Overview

In July 1996, the Bureau of Alcohol, Tobacco and Firearms (ATF), at the direction of the President, initiated the Youth Crime Gun Interdiction Initiative (YCGII) to strengthen enforcement efforts against gun traffickers who supply firearms to juveniles. At the time YCGII began, homicides committed by young people with firearms had nearly tripled since 1985. Seventeen cities were initially included in the initiative that uses ATF's Firearms Tracing System (FTS) to trace every gun recovered in a crime. This trace information provides ATF and other law enforcement agencies with crucial investigative leads. ATF and the agencies are to work jointly using these leads to develop investigative and prosecutive strategies that target gun traffickers supplying firearms to juveniles.

Initial funding for YCGII came from the Treasury Forfeiture Fund (TFF). For Fiscal Year (FY) 1999, Congress appropriated \$27 million for YCGII. For FY 2000, Congress increased total funding for YCGII to \$51,320,000. Accordingly, effective use and control over funds appropriated for YCGII is important to help ensure YCGII achieves maximum benefits.

The Office of Inspector General (OIG) included a review of YCGII in its *Office of Audit, Annual Plan for FY 1999* because the Administration and Congress have placed a high priority on reducing violent crime committed by young people with firearms. This report is one of three reports on ATF activities that are associated with YCGII and it discusses ATF procedures and controls over YCGII funds and expenditures. A second report discusses ATF's efforts to redesign its FTS. A third report will address the results that YCGII has achieved.

Objectives, Scope and Methodology

The overall objective of this review was to evaluate ATF's procedures and controls over funds designated for YCGII. Our specific objectives were to determine whether ATF: (1) accounted for funds expended and that expenditures were efficiently spent and supported YCGII; (2) adhered to Federal and Treasury requirements for awarding contracts and monitoring contractors who provided goods and services for YCGII; and (3) established and maintained accountability over equipment purchased with YCGII funds.

EXECUTIVE DIGEST

To accomplish our review we evaluated expenditure, contracting and property procedures, and other records pertinent to YCGII. We discussed YCGII activities with ATF officials responsible for administering YCGII and we interviewed officials from the Treasury Executive Office for Asset Forfeiture (EOAF). We also performed a limited inventory of equipment purchased for YCGII. The scope of this review covered all funds received for the YCGII program since its inception through FY 1998.

Audit Results

ATF's finance files showed no material error in the recording of the amount of payments made for YCGII from inception through FY 1998. However, certain obligations and expenditures were not used efficiently and may not have supported YCGII activities. Consequently, not all YCGII funds were used to their maximum benefit. In part, these conditions occurred because (1) certain accounting procedures were not followed, and (2) a YCGII Director had not been appointed prior to FY 1999. In FY 1999, ATF appointed a YCGII Director who initiated steps to help ensure appropriated funds are used to maximum benefit. Providing the YCGII Director with formal authority to review and approve all proposed YCGII expenditures would further enhance the YCGII Director's role.

Procurement of goods and services for YCGII and monitoring of contractor activities, were not always in accordance with either Treasury or Federal Acquisition Regulations (FAR) requirements. This occurred because employees ignored or were not familiar with these requirements for acquiring goods and service from contractors. Further, supervisory reviews of employees' procurement activities were not always adequate. As a result, there is an increased risk that ATF will not (a) obtain goods and services in the most cost effective manner, or (b) meet its program need in a timely manner.

Property purchased with YCGII funds totaling \$119,977, could not be located at ATF offices during our audit because property records were incomplete or inaccurate. Consequently, there is a great risk that property could be misplaced, lost, stolen, or used for purposes other than for YCGII. Additionally, management has less assurance that it has accurate financial management information to help make informed decisions about future funding and oversight of YCGII activities. ATF

EXECUTIVE DIGEST

procedures require employees to maintain accurate property records but employees did not follow these procedures. An ATF internal review also found that employees had not followed these procedures, but officials had not timely completed actions to implement the review's recommendations.

Recommendations and Management Response

Our draft report, issued on February 1, 2000, made 11 recommendations to enhance ATF's controls over use of funds, contractors' work, and equipment that was purchased for the YCGII program. ATF generally agreed with and will implement all recommendations. However, ATF did not include specific information on the timeframes or methods to complete certain actions. We are requesting ATF to provide us with documentation on the timeframes and methods to complete the actions.

The details of ATF's responses and actions initiated to address our findings and recommendations are contained in the body of this report. We believe that implementation of these recommendations will help strengthen ATF's procedures and controls over funds designated for YCGII.

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BACKGROUND

In July 1996, at the direction of the President, ATF initiated YCGII as an initiative to strengthen enforcement efforts against crime gun traffickers who supply firearms to juveniles. At the time YCGII began, homicides committed by young people with firearms had nearly tripled since 1985, and other types of gun related violence were on the rise. The illegal sources of firearms to juveniles to commit these crimes had come from intrastate and interstate trafficking, stolen firearms trafficking, and thefts from Federal Firearms Licensees (FFL).

Upon implementation, YCGII became a focused component of ATF's Illegal Firearms Trafficking Project which seeks to identify the most prolific illegal traffickers of firearms to violent criminals as well as youths and juveniles. Initially, YCGII was implemented in 17 pilot cities and was expanded to 27 cities by February 1999. In order to identify and stop the illegal sources of firearms to juveniles and youths in these cities, YCGII has the following primary goals:

- To ensure that every recovered crime-gun in each city is traced through ATF's National Tracing Center (NTC).
- To conduct analysis on the resulting crime gun information to determine the community-wide patterns relating to recovered firearms.
- To produce a publication of crime gun analysis for use by Federal, State, and local law enforcement at YCGII cities to develop collaborative strategies and enforcement activities against illegal sources of crime guns.

To help achieve these goals, ATF's NTC works with law enforcement agencies, firearms manufacturers, and FFLs to trace and determine the manufacturing and initial sale history of firearms recovered by Federal, State, and local law enforcement agencies. The trace information developed by the NTC, provides ATF and the other law enforcement agencies with crucial leads against gun traffickers. In its first YCGII Trace Report, ATF reported that 37,000 crime guns from 17 cities were analyzed. In its second YCGII Trace Report, ATF analyzed 76,000 crime gun traces from the 27 participating cities. A related Performance Report on the YCGII program shows that the most important factor leading to trafficking investigations, involving juveniles and youth, was

BACKGROUND

analysis of trace and multiple sale records that accounted for 37 percent of firearms trafficking investigations.

Until FY 1999, start up funds to support YCGII came primarily from the TFF. These funds were not available for funding full time permanent employees. During the first two years ATF received about \$12 million from the TFF for YCGII and \$1.25 million appropriated by Congress in FY 1998. These funds were used to help initiate city-based comprehensive crime gun tracing. Funds were also used to improve the NTC systems for receiving, responding to, and analyzing trace information. Additionally, ATF used the funding to obtain services of independent academic experts. These experts assessed firearms trafficking patterns and supported ATF efforts in providing accurate information back to Federal, State, and local law enforcement agencies about these patterns.

In FY 1999, Congress appropriated \$27 million for YCGII. ATF was to use approximately \$16 million of this appropriation to add 162 ATF agents to field offices to strengthen enforcement efforts of the firearms laws. ATF was also to use another \$11 million to support comprehensive crime gun tracing. In FY 2000, Congress increased total funding for YCGII to \$51.3 million to expand YCGII to 37 cities. The Administration's commitment is to expand YCGII to 75 cities within 4 years. An important development for ATF in the year ahead, YCGII funding will provide ATF field offices with electronic access to Project LEAD, ATF's crime gun information system that uses trace data to produce investigative leads. This step is to support a further increase in collaboration with State and local law enforcement agencies in conducting illegal firearm trafficking investigations.

OBJECTIVES, SCOPE AND METHODOLOGY

The Office of Inspector General (OIG) included this review in its *Office of Audit, Annual Plan for FY 1999* because reducing violent crime committed by young people with firearms has been a priority to the Administration and Congress. This review is one of three OIG reviews on ATF activities that are associated with YCGII. The other two reviews cover ATF's efforts to (a) redesign its FTS and (b) work with other Federal, State, and local law enforcement agencies to develop and implement investigative and prosecutive strategies that target illegal gun traffickers.

The overall objective of this review was to evaluate ATF's procedures and controls over YCGII funds and expenditures. Our specific objectives were to determine whether ATF:

- accounted for funds received and expended, and that expenditures were efficiently spent and supported YCGII;
- adhered to Federal and ATF requirements for awarding contracts and monitoring contractors who provided goods and services for YCGII; and
- established and maintained accountability over equipment purchased with YCGII funds.

To accomplish our review, we conducted work at ATF Headquarters where we interviewed officials and other employees in the (1) Office of Firearms, Explosives and Arson; (2) Office of Management; (3) Office of Science and Technology (OST); and (4) Office of Inspection (OI). We reviewed policies, procedures and records relating to the (a) receipt and expenditure of funds; (b) acquisition of goods and services; and (c) controls over property. We judgmentally sampled expenditure records to determine if expenditures were properly recorded in ATF's finance files and that they supported YCGII. To determine the location of property and its use we performed a limited inventory of YCGII property at the NTC and at ATF Headquarters. We also obtained pertinent EOAF reports and discussed YCGII expenditures with EOAF officials.

Audit work was performed from November 1998 through August 1999. Our review generally covered YCGII expenditures since the inception of

OBJECTIVES, SCOPE AND METHODOLOGY

the program in FY1996 through FY 1998. Our audit was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States, and included such audit tests that were deemed necessary.

AUDIT RESULTS

Finding 1. Controls Over YCGII Funds Needed Enhancement

ATF's finance files showed no material error in the recording of the amount of payments made for YCGII from FY 1996 through FY 1998. However, certain obligations and expenditures were not used efficiently and may not have supported YCGII activities. Consequently, not all YCGII funds were used to their maximum benefit. In part, these conditions occurred because (1) certain accounting procedures were not followed and (2) a YCGII Director had not been appointed prior to FY 1999. In FY 1999, ATF appointed a YCGII Director who initiated steps to help ensure funds are used to maximum benefit. Providing the YCGII Director with formal authority to review and approve all proposed YCGII expenditures would further enhance the Director's role.

Recommendations

We recommended the ATF Director ensure that:

1. The YCGII Director (a) receives formal authority to review and approve all proposed uses of YCGII funds and (b) develops spending plans and expenditure reports for YCGII.
2. Obligations using YCGII funds that the OIG identified as outstanding for over 1 year, are reviewed by ATF in accordance with ATF's new policy to review unliquidated obligations.

Management Response and OIG Comments

ATF agreed with our first recommendation. The ATF Director stated in a memorandum dated March 30, 2000, that the YCGII Director, has the full authority to respond to crosscutting issues relating to YCGII throughout the bureau. The YCGII Director will propose resource allocations, initiate long range planning, develop annual program plans, and perform financial reviews. The YCGII Director will provide recommendations to the Executive Staff on the most effective use of YCGII resources, including program planning and field implementation. Financial reviews will be made using program specific executive summary reports of key financial and performance data that the Financial Resources Desktop (FReD) system will generate, once this feature is fully implemented.

AUDIT RESULTS

In response to our second recommendation, ATF stated that they concurred with a review of all open obligations pertinent to YCGII funding to ensure appropriate deobligations where necessary. The \$292,270 in open obligations that the OIG identified as requiring further review will be validated and deobligated where appropriate. ATF will forward documentation on the review results to the OIG.

We believe ATF's response addresses the issues for both recommendations. The ATF Director, however, should establish a timeframe for ATF to provide the program specific reports in the FReD system, and should advise us of the timeframe. The ATF Director should also inform us of the timeframe for forwarding the documentation on the resolution of the \$292,270 in open unliquidated obligations.

Details

YCGII obligations and expenditures were not always properly managed. Table 1 summarizes the issues over the use of YCGII funds.

Table 1
Summary of Expenditure Issues

DESCRIPTION	AMOUNT
Unliquidated Obligations Needed Review	\$292,270
Projectors Not Distributed Timely	206,809
Procurement Practices For 15 Delivery/Purchase Orders Did Not Follow All Requirements	4,837,952
Unaccounted For Equipment	119,977
Total	\$5,457,008

The expenditure issues shown in Table 1 are described in more detail below.

- **Unliquidated Obligations Needed Review**
In January 1999, ATF had nine unliquidated obligations for various YCGII-related expenditures that were a minimum of 14 months old. ATF needed to review these obligations because of their age. The obligations were for the following activities or purchases.

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<u>Activity</u>	<u>Total Funds Obligated</u>
Printing of an Illegal Firearms Trafficking Guide	\$114,650
Computer Server and related items	96,389
Academic Research	74,000
Computer Software	6,336
Miscellaneous investigative equipment	<u>895</u>
Total	<u>\$292,270</u>

In an OIG report on ATF's unliquidated obligations (OIG-00-012, November 3, 1999), the OIG found that ATF had established policies and procedures for conducting semiannual reviews of unliquidated obligations. ATF, however, did not properly identify all amounts that should have been deobligated during its latest review. In its response to the audit, ATF explained that a new financial system, FReD, will further enhance the controls over the unliquidated obligations review. FReD will place the responsibility of deobligations with each program office, which will perform monthly reviews.

At our exit conference and in subsequent discussions, ATF officials provided us with comments on actions that they are taking to ensure that the unliquidated obligations are valid. We believe these actions will help to ensure YCGII achieves its objectives. For obligations which are no longer valid, officials should ensure that the appropriate amounts are deobligated. They should then determine whether these amounts can be used again for other YCGII activities.

- Projectors Not Distributed Timely
In October 1998, ATF purchased 29 projectors at a cost of \$136,909 for instructors to use to teach agents how to identify guns for tracing. We located the unused projectors in a closet in May 1999, during our inventory of equipment that had been purchased with YCGII funds. Employees explained that the projectors could not be used until a

AUDIT RESULTS

contractor completed programming the software, which contains firearms training material. ATF had also obligated \$69,900 to pay for this programming. Therefore, a total of \$206,809 was associated with the purchase of the projectors. After discussing this issue with ATF officials, they distributed the projectors and software to the YCGII field office coordinators at the National Conference for YCGII Coordinators in November 1999.

- Procurement Practices Associated With 15 Purchase/Delivery Orders
As described in Finding 2, ATF employees had not always followed required procedures in acquiring products and services and in monitoring contractors' work. For 15 of 20 procurement actions that we reviewed, procedures were not followed in at least one of the contracting phases of (1) pre-solicitation and award, (2) contract modifications, (3) monitoring, and (4) inspection and acceptance of products and services.
- Unaccounted For Equipment
As described in Finding 3, in our inventory of property conducted in May 1999, we could not find 81 items valued at \$260,053. At the time we completed fieldwork, ATF had found 27 items but still could not locate 54 items valued at \$119,977. The equipment could not be located because ATF's inventory system and other property records were either incomplete or inaccurate.

Federal guidance requires agencies to maintain an effective internal control structure that will provide reasonable assurance that transactions, including those related to obligations and costs, comply with applicable laws and regulations. For example, the Chief Financial Officer's Act requires agencies to routinely produce sound cost and performance information on agency activities. The Office of Management and Budget has also issued related circulars, including A-11, which provides guidance on the planning, budgeting and acquisition of capital assets.

The inefficient use of funds was also due to ATF not having a YCGII Director prior to FY 1999. To address this issue, ATF appointed a YCGII Director in FY 1999. The Director serves as the principal advisor to the executive staff on all issues related to YCGII. In general, the YCGII Director is responsible for organizing and directing YCGII activities in participating communities nationwide to ensure consistency in application and accurate evaluation of results.

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The YCGII Director explained various actions to carry out these responsibilities including the receipt, on an informal basis, of requisitions on proposed expenditures of YCGII funds. This is a positive action that should be extended to a formal review and approval authority over funds earmarked for YCGII activities. Such authority would extend to funds used by OST to enhance computer systems that support YCGII because the YCGII Director explained he had authority over YCGII expenditures for all ATF offices. Our analysis of financial records showed that 29 percent of YCGII funds received through FY 1998 were used by OST for software and hardware purchases.

As the YCGII Director activities evolve, preparation of a detailed annual spending plan and expenditure reports needs to be included to show that funds have been spent in accordance with the descriptions provided in ATF's budget. To illustrate, ATF's budget documents for FY 1999 stated that funds received for YCGII would be used to support various activities in the following categories:

- Comprehensive Crime Gun Tracing by State and Local Law Enforcement;
- Rapid High Volume Crime Gun Tracing by the NTC;
- Enhancements to the NTC Hardware and Software;
- Preparation of Crime Gun Analysis Reports and establishment of National Crime Gun Information Centers;
- Hiring of Special Agents to investigate traffickers providing firearms to gangs and juveniles; and
- Training for ATF and State/Local Law Enforcement on Illegal Firearms Trafficking Investigations.

The YCGII Director has initiated an expenditure report by category that shows available funds remaining for YCGII. Data for this report is compiled from accounting records but did not yet reflect reconciliation actions by the offices allocated resources. ATF should also take action to have the financial system generate the expenditure report. This action would eliminate the need to separately compile the report data and would provide the report more timely.

AUDIT RESULTS

Developing detailed expenditure reports and spending plans will further ensure that the funds Congress specifically designated for YCGII are spent on priority activities. For example, expenditure reports will better illustrate to management the efforts and resources devoted to “...implement a multifaceted regional enforcement strategy within the Midwest region” as emphasized by Congress for FY 1999. The reports will assist the YCGII Director in the capacity of principal advisor to the executive staff on all issues relating to YCGII. Without such reports, there is an increased risk that funds will not be used in the most effective and efficient manner, thus reducing the benefits that can be achieved under YCGII.

AUDIT RESULTS

Finding 2. Acquisition Process And Monitoring Of Contractors Could Be Strengthened

Procurement of goods and services for YCGII and monitoring of contractor activities were not always in accordance with either Treasury or FAR requirements. This occurred because employees ignored or were not familiar with these requirements for acquiring goods and service from contractors. Further, supervisory reviews of employees' procurement activities were not always adequate. As a result, there is an increased risk that ATF will not (a) obtain goods and services in the most cost effective manner, or (b) meet its program needs in a timely manner.

Recommendations

We recommended the ATF Director ensure that:

1. The Acquisitions Division institutes periodic reviews to determine that (a) contract files contain adequate documentation to support selection of contractors and contract modifications and (b) employees adequately monitor procurements.
2. Program offices are held accountable for submitting requisition requests within the timeframes required by the Chief Financial Officer (CFO).
3. The Financial Management Division ensures (a) FReD provides information so officials can verify that Contracting Officer's Technical Representatives (COTR) have approved payments to contractors and that the delivered items were satisfactory, and (b) the Finance Branch periodically checks that employees who sign receiving reports and invoices have authority to do so.
4. ATF issues and implements formal instructions that COTRs (a) are selected from the program office receiving the product or service, and (b) have the experience and technical knowledge for projects assigned to them.
5. Acquisitions Division officials complete training to COTRs and contracting officers to strengthen their adherence with the FAR and the COTR Handbook.

AUDIT RESULTS

Management Response and OIG Comments

ATF concurred with the first recommendation and has drafted a Policy and Procedure Memorandum to address a review of solicitations, amendments, contracts, and modifications, and associated files. The directive will also specifically address post award reviews for contract administration issues that will be accomplished on a sampling basis.

ATF concurred with our second recommendation and stated that requisitions received after the established deadlines require further review and approval of the appropriate Assistant Director before they will be processed. Attention at this level helps ensure that managers can be directed to improve the efficiency of their annual spending plans. As with many circumstances involved in running a law enforcement operation, changing events can often result in actions required outside of normal timeframes, so a certain degree of flexibility is warranted.

ATF agreed to our third recommendation, and stated that ATF achieves the approval of payments to contractors for goods or services through the use of electronic receiving reports. In the FReD system, the program office requesting the goods or services (in this case the COTR) must have received, inspected and accepted the goods or services on behalf of the Government. The COTR approves – through the funds control point – the entry of an itemized receiving report into the FReD system designating either full or partial receipt of the goods/services. In the response to another recommendation, ATF explained that standard business procedures are being promulgated which require that the identity of the person taking receipt of the goods or service be annotated in the description field of the receiving report. Where applicable, FReD permits detailed documentation as to performance and/or condition of goods and services to be attached to the referenced receiving report transaction.

In the response to our fourth recommendation ATF stated that while they concurred with the intent of the recommendation, it would be addressed on a case-by-case basis. ATF explained that it makes sense to implement COTR selection changes where the requisite experience and technical knowledge exist within the program office. However, the Assistant Directors of Office of Science and Technology and Office of Firearms, Explosives and Arson have agreed that individuals from either directorate would be selected on the basis of experience and technical knowledge of

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the project. We believe this action meets the intent of our recommendation.

In response to our fifth recommendation, ATF stated that all identified COTRs have received both the basic and any appropriate refresher training. The Acquisition and Property Management Division is continually training its contracting personnel, with 14 of 24 having had all of the Department of the Treasury required training courses for their grade levels. Each of the remaining 10 contracting personnel are scheduled to complete at least one required training course this fiscal year. Also, ATF will discuss the OIG report during the next Acquisition Branch meeting and the next COTR Refresher training.

We believe the above actions meet the intent of our recommendations and should help to improve the acquisition process and monitoring of contractors. Regarding the first recommendation, ATF should provide us a copy of the Policy and Procedure Memorandum when it is issued. Regarding the third recommendation, ATF should provide us a document that describes the methods ATF will use to periodically verify that employees approving receiving reports and invoices have authority to do so. Regarding the fourth recommendation, we believe that ATF should require an approval for payment from both the program office and COTR, in cases where the COTR is not from the program office that had requested the product or service. The dual approval would ensure that the program office is an active participant in the acquisition process and is satisfied with progress of delivery and the quality of the product or service.

Details

ATF employees did not always follow required procedures in acquiring goods and services, and in monitoring contractors' work. For 15 of 20 procurement actions that we reviewed, employees did not follow procedures in at least one of the contracting phases of:

- (1) pre-solicitation and award, (2) contract modifications, (3) contract monitoring, and (4) inspection and acceptance of goods and services. The 15 procurement actions were valued at \$4,837,952. Employees did not comply with requirements because they either ignored or were unfamiliar with requirements. Also, contracting officer and other supervisory reviews were insufficient to detect or prevent the discrepancies. These discrepancies increase the risk that ATF will either not obtain goods and services at the optimum cost, or will not

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fully and timely meet its program needs. The following sections summarize the discrepancies for each of these phases.

Pre-Solicitation and Award

During this phase, contracting employees (1) perform acquisition planning, (2) prepare requirements documents, (3) solicit proposals or offers, and (4) award contracts. As described below, in five procurements, contracting employees did not comply with either the FAR or Treasury's COTR Handbook for these activities.

- **Undocumented Allegation**

In one instance, a COTR and contracting officer noted in the contract file that a contractor was not selected in part because the contractor had allegedly falsified timesheets in a prior project [REDACTED]. This contractor had also submitted the lowest offer, [REDACTED]. However, the COTR did not obtain supporting documentation or the name of the individual who made the accusation. [REDACTED] officials advised us that they had no record of this contractor falsifying timesheets.

ATF awarded the contract to another contractor for \$435,900. The Chief of ATF Acquisition and Property Management Division (Division Chief) stated that this contractor was selected because of greater experience with database administration than the contractor submitting the lowest offer and not because of the allegation. Our review of the contract file confirmed that the contractor awarded the contract had more experience. The file, however, contained an evaluation of contractors, and a letter to the contractor submitting the lowest bid, that showed the allegation was a factor in nonselection. The Division Chief agreed that the COTR did not document the contract file adequately on the allegation. ATF needs to ensure all factors used in the selection process are adequately supported. When a contractor's offer is excluded without adequate supporting documentation, it may give the appearance that Treasury is not acting in good faith.

- **Work Started Before ATF Issued Delivery Orders**

In five instances, COTRs or other ATF employees allowed contractors to start work before a contracting officer issued the appropriate delivery order.

AUDIT RESULTS

In one instance, work began on October 1, 1997, but the contracting officer did not issue a \$185,000 delivery order for this work until March 18, 1998. In the other four instances, delivery orders were issued from 1 to 2 months after the contractor began work. The COTR Handbook, Part I, provides that employees are prohibited from directing a contractor to begin work prior to the contract award date. Commitments made by employees other than contracting officers allowing a contractor to begin work before a delivery order is issued can result in appeals or disputes over work and possible monetary loss to the firm involved.

Office of Science and Technology (OST) officials explained that the contract for the \$185,000 delivery order was for work on a computer system that continued from 1 year to the next and could not be interrupted. However, in these types of contracts the Division Chief said that requisition requests must be received more timely (e.g. April/May) so that recurring contracts for the next fiscal year can be prepared timely. The Division Chief re-emphasized that when requisitions and related contracts are delayed, affected contractors have the right to stop work. In the past, contractors have threatened to cancel or close a contract because contracts had not been issued timely.

In a February 25, 1999 memorandum, the Assistant Director (Management)/CFO requested that ATF offices submit requisitions by certain dates to ensure timely processing. As of October 8, 1999, however, the Division Chief stated that ATF had 617 procurements for FY 2000 that lacked contracts because ATF offices had not submitted requisitions timely. These procurements involved continual services such as antenna or other maintenance services. Accordingly, ATF needs to ensure offices submit requisitions on time.

Contract Modifications

In three procurement actions, contract modifications were not prepared when the contractor was either assigned work different than that stated in contract documents, or the date to complete the work was extended. Most significantly, a contractor was awarded a contract valued at \$435,900 to work on a computer system that supports ATF's administration of alcohol permits. After ATF awarded the contract, an Information Services Division (ISD) official directed the contractor not to work on this system but instead to work on the Financial Tracing System (FTS). The COTR Handbook, Part IV, provides that contracting

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officers must make all contract modifications in writing, including modifications that extend the time for the contractor to complete work at no additional cost.

A contract modification was not issued for the redirected work because the COTR and project leader did not notify the contracting officer that the contractor had been directed to perform other work. The COTR had relied on the project leader to monitor the contractor, and did not know that the project leader directed the contractor to work on the FTS. Without a modification, the Government lacks assurance that the contractor's work on FTS was worth the same amount as work described in the contract's original statement of work.

For the procurement actions which involved time extensions, at least one contracting officer, one project leader, and one COTR believed contract modifications were not necessary, unless the cost of the work increased. Without modifications, however, the government may lack recourse if the contractor's work is unsatisfactory. The Division Chief later advised us that on August 13, 1999, ATF amended one of the two contracts to extend the date for the contractor to complete the work.

Contract Monitoring

In monitoring contracts, the COTR Handbook, Parts I and IV, provides that COTRs are responsible for (1) monitoring contractor activities, (2) submitting performance reports to the contracting officer, and (3) approving payments to the contractors. In four procurements, the COTRs had not complied with Treasury guidance for at least one of these three activities.

- **COTR Monitoring**

In three procurement actions for computer systems, the COTR relied on the project leader to determine whether the contractor delivered supplies or performed services required by the contract. The COTR Handbook requires the COTR to determine that contractor services conform to technical requirements and to ensure the Government pays only for the services, materials, and travel authorized and delivered under the contract. The COTRs explained that they did not perform all of these activities because (1) the project leader had the expertise with computerized systems, or (2) the COTR had too many projects to monitor. Project leaders, however, are unlikely to have

AUDIT RESULTS

time to perform all of the COTRs duties because of their responsibilities to manage these projects. As a result, ATF has less assurance that it received and paid only for the services required by the contract.

- Performance Reporting

For two of four ATF issued contracts, COTRs ignored or overlooked the requirement to provide quarterly performance reports to contracting officers. For example, on a \$15 million contract, the COTRs did not submit quarterly performance reports for over a year. Furthermore, the COTR did not provide the quarterly reports even though the contracting officer sent a follow-up letter to the COTR during the audit. When the COTR does not provide the contracting officer with performance reports, the contracting officer is not able to monitor the project as effectively. For example, the contracting officer on this contract advised us that he was unsure of the actual work performed on one \$185,000 delivery order.

The Division Chief stated that, during the audit, ATF began implementing the National Institutes of Health Contractor Performance System to provide more extensive information and annual reports on contractor performance. ATF will require COTRs to prepare annual performance reports for contracts over \$100,000. This action should help strengthen contract monitoring.

- Approving Payments to Contractors

Parts I and IV of the COTR Handbook require the COTR to review the contractor's invoices for accuracy and to certify acceptance of the contractor's work. Contrary to this requirement, COTRs did not review and approve invoices for payment on two contracts. For one contract, the COTR did not approve 15 invoices totaling \$118,000. In this instance, the project leader approved the invoices but did not keep a detailed record of the hours worked by the contractor to help verify the accuracy of the invoices. In another instance, neither the COTR nor the project leader approved a \$35,572 invoice. As a result, ATF had less assurance that the work was accurately billed and the work is satisfactory.

In our review of invoices we also found that the Financial Management Division (FMD) lacked a list of COTRs authorized to

AUDIT RESULTS

approve payments. FMD only had a list of positions authorized to approve payments. Without a current list of COTRs authorized to approve payments, unauthorized individuals could approve work or products that were not ordered or which are unsatisfactory. The ATF Deputy CFO stated that ATF intends to adjust FReD to help ensure that employees have current authority to approve payments.

Inspections and Acceptance Responsibilities

The COTR Handbook, Part IV, states that a contracting officer's final acceptance of supplies or services concludes contractor performance. If the contractor's performance does not meet contract requirements, the COTR must identify deficiencies and make recommendations to the contracting officer so that timely remedial action can be taken.

For 11 of 14 procurement actions where final receiving reports were appropriate, Acquisitions' files lacked the final receiving report. This condition occurred, in part, because not all COTRs were aware of the requirement to send receiving reports to Acquisitions. Without a copy of the receiving report, Acquisitions has less assurance that the contractor provided the required goods or services, and that unsatisfactory work is identified and corrected.

The Division Chief advised us that employees subsequently found 5 of the 11 missing receiving reports. The Division Chief explained that employees may not have filed these receiving reports when we made our review. Further, the Division Chief explained that FReD would have a receiving report module to help address this issue. In order for ATF to pay a contractor, FReD will require employees to enter data from the (1) contractual obligating document, (2) invoice, and (3) receiving report.

When data from the receiving report is entered into FReD, it will be considered a part of Acquisitions' files. Acquisitions will no longer need a copy of the receiving report because the contracting officer can have access to FReD and verify data from the receiving report. ATF needs to ensure FReD includes sufficient data to help Acquisitions employees verify that COTRs approved contractor payments and that goods and services are satisfactory. Our review of documentation on FReD did not

find that COTRs were required to enter data to show they approved receiving reports and payments to contractors. Further the

AUDIT RESULTS

documentation showed that entering key information was optional, such as (1) the name of the person who received the goods or services, and (2) condition of the goods when they were received and inspected.

Contracting Officer and Supervisory Reviews Could Be Improved

The deficiencies described above, in part, were also caused by inadequate post award reviews of contracting files by contracting officers. Contracting Officers should periodically review the contract files for deficiencies because they sign contracts and bear legal responsibility for them. They also ensure competitive sources are solicited, contract prices are fair and reasonable, and that contractors meet quality standards. In implementing this process, Acquisitions' supervisors should periodically check that Contracting Officers are performing these reviews. Currently, the supervisors only review a contract file when information is requested on a specific contract.

Selection of COTRs Could Be Enhanced

For two information technology (IT) projects, both the COTRs and project leaders were from Information Services Division (ISD) and not the program office for which ISD was developing the projects. The COTRs and project leaders lacked direct accountability to the program office for the results of the project. Further, for these two projects the COTRs stated they relied on the project leader in ISD to monitor the projects and to ensure the work was satisfactory. ATF officials acknowledge that the ISD project leaders may lack knowledge of the activities of the program office for which the project is intended. As a result, the COTR and project leader when performing their responsibilities may not be fully responsive to the program office needs.

COTRs and project leaders were selected from ISD because ATF does not have a formal policy that requires IT projects to have the responsible COTR assigned from the program office for which the project is intended. Consequently, for some IT projects, the project leader and the COTR are from ISD.

The General Accounting Office's *Standard for Internal Controls in the Federal Government* provides a specific standard for separation of duties.

It states that "...no one individual should control all key aspects of a transaction or event." A policy that would help ensure that COTRs are

AUDIT RESULTS

selected from the program offices would provide greater assurance that both the program office and ISD will jointly monitor the projects. It would also provide greater assurance that the projects will fully meet the needs of the program office for which the project is intended.

Corrective Actions By ATF

The Division Chief discussed the issues in this finding during a September 1999 meeting with Contract Specialists and Procurement Analysts. The Chief will also discuss our final report with contracting officers, Procurement Analysts, and COTRs. It will also be used in the next COTR Refresher Training. We believe this intended action is appropriate and ATF should ensure this training is completed.

AUDIT RESULTS

Finding 3. ATF Needs To Resolve Inventory Discrepancies And Maintain Accurate Property Records

Property purchased with YCGII funds totaling \$119,977 could not be located at ATF offices during our audit because property records were incomplete or inaccurate. Consequently, there is a great risk that property could be misplaced, lost, stolen, or used for purposes other than for YCGII. Additionally, management has less assurance that it has accurate financial management information to help make informed decisions about future funding and oversight of YCGII's activities. ATF procedures require employees to maintain accurate property records but employees did not follow these procedures. An ATF internal review also found that employees had not followed these procedures, but officials had not timely completed actions to implement the report's recommendations.

Recommendations

We recommended the ATF Director ensure that officials:

1. Resolve inventory discrepancies found by the OIG, during its review, and update the property inventory system and Property Issue Receipts (property receipts). If significant discrepancies exist, Office of Inspection (OI) should perform an investigation.
2. Ensure that funding is provided to complete enhancements to FReD so it provides receiving reports and other information to the Property and Fleet Management Section (PFMS) as well as to finance officials.
3. Complete enhancements to the Personal Property Management System (PPMS), which will allow property custodians to access property information to generate property receipts. ATF officials should ensure that the manual system for property receipts is followed until the enhancements to the PPMS are completed.
4. Complete actions to address recommendations contained in the OI report concerning controls over property.

AUDIT RESULTS

Management Response and OIG Comments

ATF concurred with the intent of our first recommendation. The Management Directorate will work with the Offices of Science and Technology and Inspection to address a corrective action for the remaining property.

ATF concurred with our second recommendation. Adequate funding will be made available to develop enhanced reports for Property and Fleet Management review purposes.

ATF concurred with our third recommendation. The Materiel Management Branch had developed a utility program that downloads property records and creates property issue receipt cards. This utility program was installed at the ATF Academy, Louisville, Nashville, the Acquisition and Property Management Division, Office of Training and Professional Development (Headquarters divisions), and Investigations Division. As the Materiel Management Branch continues to make field visits the utility will be installed.

In reply to our fourth recommendation, ATF explained that its Office of Inspection had conducted a follow-up inspection in May 1999, and found that recommendations to improve property controls had been instituted.

We believe these actions, when completed, will meet the intent of our recommendations and should help improve control over property. Regarding the first recommendation, ATF should establish a timeframe to complete the corrective action and, upon completion, should provide us a listing showing the corrective action taken to resolve the discrepancies. Regarding the third recommendation, ATF should establish a timeframe for providing the utility program to all ATF offices, and advise us of the timeframe. Until this program is provided to all offices, ATF should ensure the manual system for property receipts is followed.

Details

In our inventory of 274 property items, conducted in May 1999, we could not find 81 items valued at \$260,053. All of the unlocated property was computer equipment that was shipped to OST's Information Services Division or the NTC. We provided the inventory results to ATF officials and they initiated efforts to locate the equipment. At the time we completed fieldwork, ATF did find 27 items but still could not

AUDIT RESULTS

locate 54 items valued at \$119,977. Table 2 summarizes the inventory results and ATF's status in locating equipment that we could not find.

Table 2
Summary of OIG Physical Property Inventory

Description	Number of Items	Cumulative Dollar Value
Equipment selected for inventory by the OIG in May 1999	274	\$1,221,278
Equipment not located during the OIG inventory and referred to OST for resolution	81	\$ 260,053
Equipment not located as of September 1999	54	\$ 119,977

The equipment could not be located because ATF's property inventory system and other property records were either incomplete or inaccurate. The following two sections discuss these issues in more detail.

Data In ATF's Property Inventory System Was Incomplete

Employees did not record all property purchased with YCGII funds on ATF's property inventory system. Since the inception of YCGII, ATF's finance system records showed that ATF purchased approximately \$1.8 million of property, primarily computer equipment, for YCGII. Table 3 summarizes the discrepancies between the finance records of property purchased and the property that employees recorded on the property inventory system.

AUDIT RESULTS

Table 3
Summary of Property Inventory System Discrepancies

Description	Number of Items	Cumulative Dollar Value
Property purchased through 1-5-99	INA*	\$1,831,474
Property not recorded on ATF's property inventory system as of 3-25-99	119	\$ 541,261
Property recorded on ATF's property inventory system as of 3-25-99	365**	\$1,235,968**

*Information Not Available. Financial records did not always show the number of items purchased.

**Items valued at less than \$500 are not required to be on ATF's inventory and are not included in this amount.

For example, the following computer equipment requisitioned by ISD employees was not listed on the property inventory system:

- 81 of 82 desktop computers ordered on September 30, 1997. Receiving reports were signed by ISD employees on December 29, 1997, and January 21, 1998. The 81 computers were valued at \$146,448.
- A server costing \$326,897. The server was ordered on September 24, 1997, and the manufacturer's invoice shows the date of arrival at ATF as October 3, 1997. The individual, however, who received the server is unknown because there is no signed receiving report in the finance file.

ATF property directives require that when offices receive property, they send a copy of a receiving report to the PFMS so that inventory records can be updated. The discrepancies occurred when employees or offices receiving property did not submit receiving reports to PFMS in accordance with the directives. Employees did not always forward the reports to PFMS because they believed the final receiving office or the user of the property should forward the receiving reports. However, the receiving office also did not notify PFMS upon receipt of the property. ATF relied on this process because the financial system at the time of our audit could not electronically alert property officials of property that had been received.

AUDIT RESULTS

Other Property Records Were Not Current

In addition to the errors in the property inventory system, other property records were inadequate because they did not show the individual currently in possession of the property. ATF property procedures require that property issued to employees be accounted for by having the employee receiving the property sign a property receipt. The property custodians for each office are to maintain the property receipts. When property receipts are not kept or not kept current, there is inadequate control over the property.

An ATF official said that property could not be located because employees did not follow required procedures. This issue along with other inventory issues had been disclosed in a April 1998 report by OI. The OI report found that ISD had not:

- conducted a complete inventory of all accountable property;
- reconciled the Master Property Inventory Report with ISD records;
- designated property custodians; and
- prepared many property receipts completely.

The OI report stated that property receipts lacked information such as the (1) date the property was issued, (2) condition of the property, (3) signature of the employee receiving the property, and (4) serial number of the equipment. These deficiencies contributed to the difficulties in locating property during our inventory.

To correct these deficiencies, OI's report recommended that (a) a complete Master Property Reconciliation be conducted shortly after the reinspection of ISD in December 1998, (b) property custodians be designated for each office, and (c) property receipts be properly completed. At the time we completed our fieldwork, ISD had not fully implemented all of OI's recommendations. Specifically, ISD had not performed a complete property inventory.

In response to the OI report, ISD explained it had prepared property receipts for each ISD employee. However, as noted above, the difficulties encountered in locating computers during our inventory indicates that property receipts within ATF remain deficient.

AUDIT RESULTS

As a result, of these deficiencies, there is an increased risk that property has been and will continue to be exposed unnecessarily to waste, fraud, abuse, and mismanagement. It also means that senior officials have less assurance that they have accurate financial management information to help make informed decisions about future funding and oversight of the YCGII. Additionally, without a financial system capable of maintaining property accountability on an ongoing basis, accounting for the acquisition of property requires more costly and time-consuming manual processes. Because manual processes are inherently prone to error, strong internal controls are needed to ensure accurate accounting.

Corrective Actions Initiated By ATF

During our fieldwork ATF initiated corrective actions to improve controls over property. These actions include:

- Development of the PPMS which is an automated property receipt program. PPMS will allow field property custodians to access property information and to create computer generated property receipts. Property custodians will also have the capability of recording the assignment of property to employees.
- Development of a training course for property custodians that will cover topics such as property receiving reports, transfer documents, and property receipts. The first class for property custodians was held in September 1999. ATF's goal is to provide the course to all property custodians over the next 2 years. In addition, 15 employees in PFMS have recently completed professional certification with the National Association of Property Managers.
- Issuance of standard operating procedures, in August 1999, to all supervisors and property custodians for transferring computer equipment between ATF offices. Additionally, ATF's Assistant Director (Management)/CFO issued a memorandum to all supervisors emphasizing the importance of maintaining property receipts and submitting receiving reports.
- Development of additional electronic reports in FreD, that will provide information to PFMS on accountable property that has been requisitioned and received. Property officials will use these reports

AUDIT RESULTS

to monitor and follow up with program offices on all accountable property on order.

Additionally, ISD officials advised us that certain issues identified in OI's April 1998 report had been addressed. Specifically, OST has (1) appointed a property custodian who has been scheduled for training regarding property controls, and (2) updated property receipts to reflect all property assigned to employees.

Property officials advised us that enhancements to the PPMS and continued training to property custodians would be subject to funding availability. Actions to implement these enhancements and to implement our recommendations are important to ensuring the proper control over property. Accordingly, the Director should ensure that funding is obtained to provide training to property custodians and complete the enhancements to the PPMS.

ABBREVIATIONS

ATF	Bureau of Alcohol, Tobacco and Firearms
CFO	Chief Financial Officer
COTR	Contracting Officers Technical Representative
DIA	Defense Intelligence Agency
EOAF	Executive Office for Asset Forfeiture
FAR	Federal Acquisition Regulations
FReD	Financial Resources Desktop System
FFL	Federal Firearms Licensee
FMD	Financial Management Division
FTS	Firearms Tracing System
FY	Fiscal Year
ISD	Information Services Division
IT	Information Technology
NTC	National Tracing Center
OI	Office of Inspection
OIG	Office of Inspector General
OST	Office of Science and Technology
PFMS	Property and Fleet Management Section
PPMS	Personal Property Management System
TFF	Treasury Forfeiture Fund
YCGII	Youth Crime Gun Interdiction Initiative

MANAGEMENT RESPONSE



DIRECTOR

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

MAR 30 2000

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MEMORANDUM FOR: Assistant Inspector General for Audit

FROM: Director

SUBJECT: Draft Audit Report on ATF Expenditures for
the Youth Crime Gun Interdiction Initiative
(YCGII)

This memorandum is in response to your draft audit report dated February 1, 2000, concerning expenditures made for the Bureau of Alcohol, Tobacco and Firearms' (ATF) Youth Crime Gun Interdiction Initiative (YCGII). I wish to compliment you and your staff for the thorough and professional manner in which this audit was conducted. We always welcome this type of review that results in constructive recommendations for improvement in the services we provide to the public and efficiencies in our use of the tax dollar.

The report is generally accurate and reflective of the comments that were made to the Office of Inspector General (OIG) audit team. Your report provides 3 findings with 11 recommendations. ATF's responses are provided below, addressed in the order in which the draft presented them. Generally, we agree with and will implement all recommendations.

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MANAGEMENT RESPONSE

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Assistant Inspector General for Audit

FINDING 1: CONTROLS OVER YCGII FUNDS NEED ENHANCEMENT.

RECOMMENDATION: *YCGII Director (a) receives formal authority to review and approve uses of funds and (b) develops spending plans and expenditure reports.*

We concur with the recommendation. A memorandum establishing the responsibilities of the Director, YCGII has been prepared and a draft is attached. In fiscal year 2000, the YCGII Director and his staff have worked closely with the Budget Office to establish spending plans and allocation levels for each directorate. These allocations have been fully reviewed by the Bureau's Resource Management Steering Committee and appropriate expectations have been set for utilization and accounting for these Congressionally earmarked funds. The YCGII spending plans are fully reflected in the Budget Office's allocation of funds to each directorate.

The FReD system has the capability to generate program-specific executive summary reports, providing an on-line summary of key financial and performance data. Once this feature is fully implemented, expenditures of these funds will be reviewed on a monthly basis by the Bureau's Strategic Leadership Team. For the interim, we have used the practice of implementing Bureau-wide coordinating efforts and review of earmarked funding.

RECOMMENDATION: *Unliquidated obligations outstanding over one year are properly reviewed.*

We concur with the recommendation and review of all open obligations pertinent to YCGII funding and ensure appropriate deobligations where necessary. The \$292,270 in open obligations identified by the OIG as requiring further review will be validated, deobligated where appropriate and documentation will be forwarded to the OIG as requested.

MANAGEMENT RESPONSE

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Assistant Inspector General for Audit

FINDING 2: ACQUISITION PROCESS AND MONITORING OF CONTRACTORS COULD BE STRENGTHENED.

RECOMMENDATION: *Acquisition Division institutes reviews to ensure that (a) contract files contain adequate documentation and (b) employees monitor procurements.*

We concur with the recommendation. The Acquisition and Property Management Division has drafted a Policy and Procedure Memorandum to address review of solicitations, amendments, contracts and modifications, and associated files. The directive will also specifically address post award reviews for contract administration issues that will be accomplished on a sampling basis.

RECOMMENDATION: *Program offices are accountable for submitting requisition requests adhering to Chief Financial Officers's (CFO) requisitioning time frames.*

We concur with the recommendation. On an annual basis, the CFO issues a memorandum outlining the requirements and deadlines for submission of requisitions for supplies or services. This memorandum sets forth time lines for procurement actions to be completed in full compliance with all regulations. Requisitions received after the established deadlines require the further review and approval of the appropriate Assistant Director before they will be processed. Attention at this level helps ensure that managers can be directed to improve the efficiency of their annual spending plans. As with many circumstances involved in running a law enforcement operation, changing events can often result in actions required outside of the normal time frames, so a certain degree of flexibility is warranted. Many times, funding for potential exigent situations must be held until late in the last quarter, after which funds can be safely directed to other needs. This helps avoid any over-obligation and ensures lapsing of the smallest amount of funds possible. Ultimately, requisitions which can not be processed within the requirements established by the Federal Acquisition Regulation (FAR) and Department of Treasury Acquisition

MANAGEMENT RESPONSE

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Assistant Inspector General for Audit

Regulation (DTAR) are returned for decommitment and redirection of funding.

As to requisitions for recurring services as described by the OIG, ATF is encumbered by financial and procurement system issues which have hampered the timely completion of delivery orders at the beginning of each fiscal year. ATF's interfaced financial and procurement systems enforce the provisions of Federal appropriations law as it regards availability of funds as to time. In the absence of a valid appropriation in the financial system, we are unable to process requisitions for supplies or services through the financial system in advance of the fiscal year in which they are required. We are continuing to work with the OIG to determine a suitable method for entering "anticipated - budget authority" into the financial system to permit the early processing of recurring service requisitions.

RECOMMENDATION: *Financial Management Division (FMD) ensures accounting system provides information to verify Contracting Officers' Technical Representatives (COTR) have approved payments and the Finance Branch periodically verifies COTR signature authority.*

We concur with the recommendation that the Financial Resources Desktop (FReD) system should enforce proper verification of the receipt of goods or services. ATF achieves the approval of payments to contractors for goods or services through the use of electronic receiving reports.

In the FReD system, three events must occur before a payment can be released to a vendor:

1. A valid itemized purchase order must have been issued by the Acquisition and Property Management Division and the resulting obligation must be recorded in FReD;
2. A valid itemized invoice must have been received by the Finance Branch and recorded in FReD; and
3. The program office requesting the goods or services (in this case the COTR) must have received, inspected and accepted the goods or services on behalf of the government. The COTR approves-through the funds

MANAGEMENT RESPONSE

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Assistant Inspector General for Audit

control point—the entry of an itemized receiving report into the FReD system designating either full or partial receipt of the goods/services. A payment will not and cannot be issued from FReD until all three of events are recorded in FReD.

The responsibility for maintaining proper supporting documentation of the receipt of goods or services remains with the program office/COTR. The responsibility for causing a receiving report to be entered rests with the program office/COTR.

RECOMMENDATION: *COTR's are selected from the office receiving the product and have experience and technical knowledge.*

While we concur with the intent of the recommendation, this will be addressed on a case-by-case basis. It makes sense to implement COTR selection changes where the requisite experience and technical knowledge exist within the program office. The Assistant Directors of the Office of Science and Technology and the Office of Firearms, Explosives and Arson have agreed that, exclusive of the place of employment, individuals from either directorate would be selected on the basis of experience and technical knowledge of the project. The Bureau's CFO supports this approach, as well.

RECOMMENDATION: *COTR training must be completed and contract officers strengthen adherence to the FAR and COTR Handbooks.*

We concur with the recommendation. All identified COTR's have had both the basic and any appropriate refresher training. The Acquisition and Property Management Division is continually training its contracting personnel, with 14 of 24 having had all of the Department of the Treasury required training courses for their grade levels. Each of the remaining 10 contracting personnel have been scheduled to complete at least one required training course this fiscal year. When the final version of the report is released, it will become the training portion of the next

MANAGEMENT RESPONSE

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Assistant Inspector General for Audit

Acquisition Branch meeting and the next COTR Refresher Training. Relevant information from the final version of the report will be provided to all ATF contracting officers, procurement analysts, and contracting officers' technical representatives.

FINDING 3: ATF NEEDS TO RESOLVE INVENTORY DISCREPANCIES AND MAINTAIN ACCURATE PROPERTY RECORDS.

RECOMMENDATION: *Resolve inventory discrepancies and have Office of Inspection investigate, if appropriate.*

We concur with the intent of the recommendation. The Management Directorate will work with the Offices of Science and Technology (OST) and Inspection to address a corrective action for the remaining property.

RECOMMENDATION: *Funding is provided for the Financial Resources Desktop system, "FReD" to complete enhancements of the Property System.*

We concur with the recommendation. The FReD system has a fully functional receiving report that meets the requirements of the applicable JFMIP Federal financial system standards. Since payment of vendor invoices requires the existence of a receiving report in FReD, ATF is assured that receiving reports will be filed before a payment is made. ATF standard business procedures are being promulgated which require that the identity of the person taking receipt of the goods or services be annotated in the description field of the receiving report. The FReD system permits the electronic attachment of notes and documents to the receiving report which then becomes a permanent part of the financial transaction. Where applicable, detailed documentation as to performance and/or condition of goods and services can be attached to the referenced transaction. Adequate funding will be made available to develop enhanced reports for Property and Fleet Management review purposes.

RECOMMENDATION: *Complete enhancements to the Property System to allow property custodians to access property information to generate property receipts; ensure manual system is followed until system enhancements are completed.*

MANAGEMENT RESPONSE

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Assistant Inspector General for Audit

We concur with the recommendation. The Materiel Management Branch (MMB) developed a utility program using Microsoft Access that downloads property records from Property Plus (PPLUS) and creates property issue receipt cards. The Property and Fleet Management Section (PFMS) has installed this utility program at the ATF Academy, Louisville, Nashville, the Acquisition and Property Management Division, Headquarters divisions in the Office of Training and Professional Development, and Investigations Division. As MMB continues to make field visits the utility will continue to be installed.

We have implemented a professional certification program for the Bureau's property management professionals. A total of 15 employees from the Acquisition and Property Management Division participated in a four-day training seminar resulting in 14 of 15 employees being recognized at one of three professional property certification levels. ATF was recognized by the Department's Director of Asset Management for this initiative, and is one of a very small number of Federal agencies with a certification program of this nature.

Another aspect of this training emphasis is a program of semiannual meetings with Headquarters (HQ) custodial officers. In this new program, HQ custodial officers receive training on different aspects of their responsibilities during these meetings.

RECOMMENDATION: *Complete actions to address Office of Inspection (OI) recommendations to improve controls over property.*

ATF's OI conducted follow-up inspection during the week of May 24, 1999. OI found that the recommendations to improve property controls had been instituted and assurance of this was provided to the Director by the attached OI memorandum.

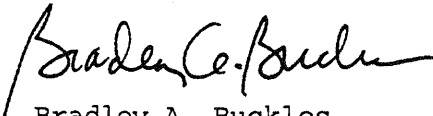
The OI memorandum is excluded because of its length. It indicated that the OI recommendations (listed on page 24 of the OIG report) were fully implemented.

MANAGEMENT RESPONSE

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Assistant Inspector General for Audit

Again, I appreciate the opportunity to provide comment. Should you need any further information concerning the contents of this document, please contact Terrence Austin, YCGII Director, at (202) 927-8425.


Bradley A. Buckles

Attachments

MANAGEMENT RESPONSE



DIRECTOR

DEPARTMENT OF THE TREASURY
BUREAU OF ALCOHOL, TOBACCO AND FIREARMS
WASHINGTON, D.C. 20226

MAR 30 2000

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MEMORANDUM TO: Executive Staff

FROM: Director

SUBJECT: Youth Crime Gun Interdiction Initiative
(YCGII) Director Responsibilities

As you are aware, the YCGII is one of the Bureau's most visible activities and as such generates strong interest in the Congress, Administration and press. The public's concern for the level of firearms violence and loss of life among our youth resulted in the creation of the project. The main focus and goals of YCGII are:

1. Working with U.S. attorneys and State/local prosecutors to intensify ATF and local police efforts to investigate and incarcerate individuals who illegally traffic in firearms to young people and ensure that those arrested are prosecuted;
2. In partnership with ATF, ensuring that local police departments trace all crime guns recovered, and in particular, those firearms taken from youths and juveniles; and
3. Combining the efforts of ATF special agents, local police, and academic researchers to develop new methods of mapping illegal firearms trafficking patterns and practices, especially as these relate to the illegal trafficking of firearms to youths and juveniles.

Our efforts have been recognized by the Administration and Congress, resulting in additional resources supporting 38 YCGII sites. This equates to just under 10% of the total agency budget for FY-2000. Support

MANAGEMENT RESPONSE

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Executive Staff

exists for the continued expansion of the program to 75 cities by FY-2003. A project of this scope must involve all Bureau activities, not just the primary law enforcement and regulatory mission, but technical, training, and support functions.

The magnitude of the program requires a central point of responsibility for project planning, management review, and reporting. As a result, I previously established the position of Director, YCGII. Although this position is in the Office of Firearms, Explosives and Arson, I intend that the Director, YCGII have the full authority to respond to crosscutting issues relating to YCGII throughout the Bureau. The Director, YCGII will propose resource allocations, initiate long range planning, develop annual program plans and perform financial reviews. The Director, YCGII will provide recommendations to the Executive Staff on the most effective use of YCGII resources, including program planning and field implementation.

If you need further information, or have additional questions, contact Special Agent Terrence P. Austin, Director, YCGII at (202) 927-8425.



Bradley A. Buckles

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