

Department of the Treasury

ATF

ANNUAL REPORT



1997

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

Scotch Whisky

10 YEAR OLD
A Genuine
AMERICAN
BOURBON WHISKY



TELEPHONY MEANS CLIMB TO LEAD A YEAR
ATTENTION: READ UP ON THE NEW TELEPHONE ACT OF 1934
BY THE BUREAU OF INVESTIGATION
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VISION

“Working for a Sound and Safer America...

...Through Innovation and Partnerships”

The Bureau of Alcohol, Tobacco and Firearms (ATF) must respond to the public outcry against crime, violence, and other threats to public safety. We must also continue to do our part to maintain the economic stability of the country. Our vision will help us chart the course to change the way we do business and achieve new levels of effectiveness and teamwork.

MISSION

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

ATF VALUES

The Bureau of Alcohol, Tobacco and Firearms:

We value each other and those we serve.

We will:

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

MESSAGE FROM THE DIRECTOR

The year 1997 marked the 25th anniversary of ATF's designation as a distinct Bureau in the Department of Treasury. Although our mission actually spans two centuries, this milestone provided an opportunity to reflect with pride on the tremendous achievement we have made as a Bureau through the dedication, courage, and sacrifice of our people. Since 1972, new responsibilities and the demands on ATF have increased dramatically while our size has not. Through the innovative and collaborative spirit of the women and men of ATF, we have been able to keep pace. Just this year, for example, Harvard University selected our Disarming the Criminal strategic planning initiative as a finalist for its Innovations in American Government Awards Program. Also, ATF once again received the highest rating on our financial audit by the Department of the Treasury.



As we move into the next chapter of our history, we are better positioned to meet the challenges before us. We are now approaching enforcement of the Federal alcohol, tobacco, firearms, explosives, and arson laws from a more unified perspective. Two organizational changes began this year to provide a structure that better facilitates the concentration of all of our assets toward achieving Bureau-wide strategic goals driven by our vision for a sound and safer America. The changes involve structuring our Headquarters around program areas, rather than the historic regulatory and criminal division. Likewise, we are streamlining and consolidating our field structure and processes.

One purpose of this report is to provide a comprehensive description of our plans and accomplishments. This year we continued to capitalize on partnerships that will allow us to deliver even greater service to the American public. A focus of these partnerships has been the development of technology that increases our expertise, improves our response capability, and maximizes our ability to train State and local personnel in the areas of alcohol, tobacco, firearms, explosives, and arson. For example, some of the most talented and experienced representatives from the fire services and science community and the University of Maryland joined with ATF to design a state-of-the-art Fire Research and Education Center that will be a powerful tool in our fight against arson. Moreover, a Memorandum of Agreement between ATF, the U.S. Fire Administration, the National Fire Protection Association, and the American Re-Insurance Company will result in a first-of-its-kind CD-ROM package that provides arson training through photo virtual reality. We have also implemented the first phase of Access 2000, a partnership between ATF and firearms manufacturers that utilizes specially designed software to quickly exchange lawful and critical information needed to trace crime guns. These are but a few of the exciting, productive strides we have made in leveraging talents, resources, and technology to better fulfill all aspects of our mission.

A second and equally important purpose of this report is to demonstrate our careful handling of the funds and other resources entrusted to us. Therefore, it is with equal pride that I can report that the evaluation of our management systems for FY 1997, required by the Federal Managers' Financial Integrity Act of 1982, demonstrates compliance with that Act. The evaluation further disclosed no material non-conformances with ATF's programs or administrative activities or with government-wide requirements in ATF's financial management systems. Finally, the Bureau is in compliance with the requirements of the Federal Financial Management Improvement Act of 1996. Specifically, ATF has implemented and maintained financial systems that comply with Federal financial management systems' requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level.

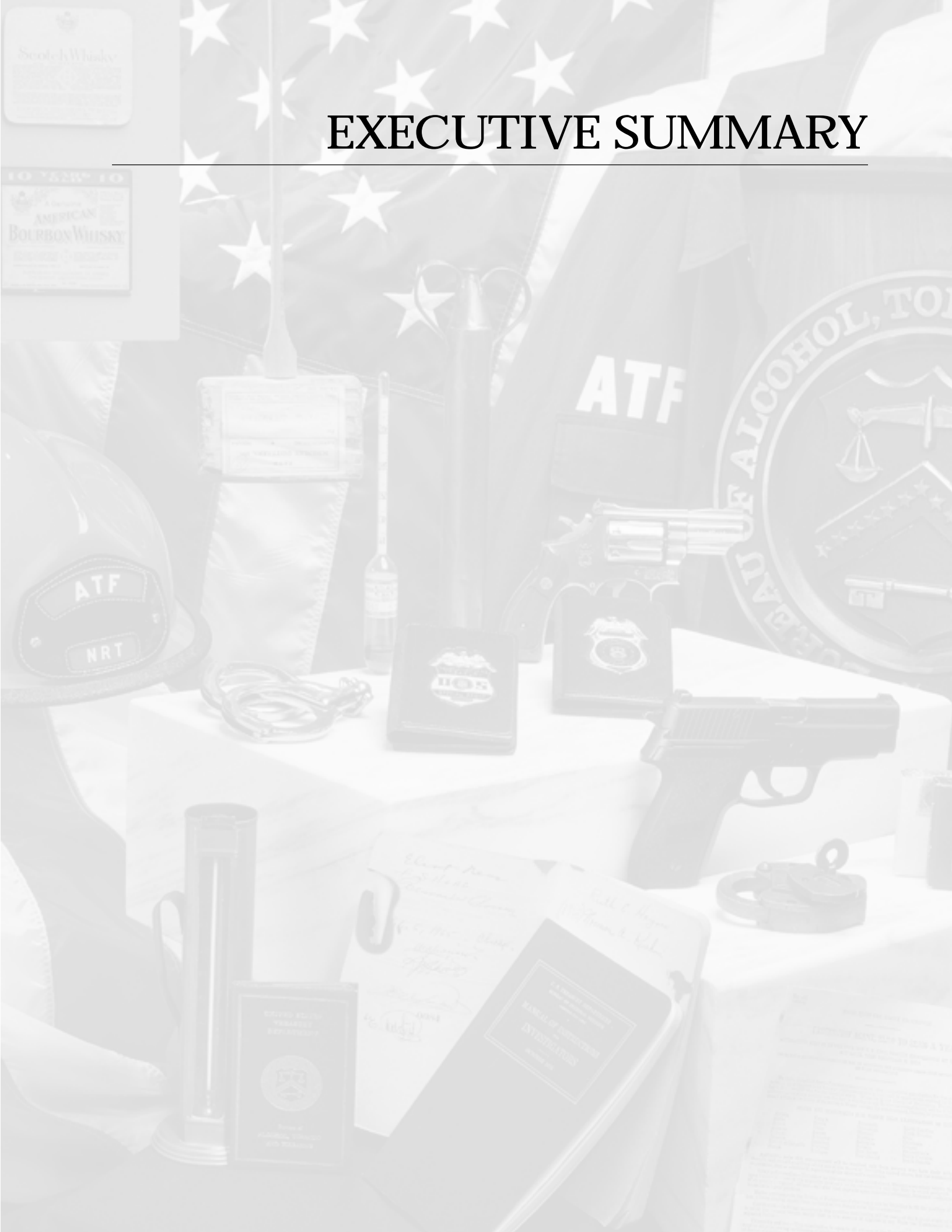
In closing, anyone reading this report can appreciate that the men and women of ATF greatly value our role as public servants and are dedicated to continually assessing and implementing policies and programs that will most effectively protect the public, reduce violent crime, and collect the revenue.

John W. Magaw

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EXECUTIVE SUMMARY



EXECUTIVE SUMMARY

ATF serves its customers and stakeholders by working with industry members, other agencies, and the American public. A bureau within the Department of the Treasury, ATF is responsible for a wide variety of programs critical to achieving a sound and safer America, through innovation and partnerships.

ATF redefined its planning and budgeting structure during FY 1996 into three major activities and further enhanced the structure in FY 1997 based on customer and stakeholder needs. The activities in the enhanced planning and budget structure clearly reflect the Bureau's mission to Reduce Violent Crime, Collect Revenue, and Protect the Public. Programs in each mission area implement the objectives of these activities and are discussed in the Program Discussion and Analysis section of this report.

Programs that support the Reduce Violent Crime activity are Deny Criminals Access to Firearms, Safeguard the Public from Arson and Explosives Incidents, Remove Violent Offenders From Our Communities, and Prevent Violence Through Community Outreach. The Collect Revenue activity programs are Establish a National Revenue Center, Collect All the Revenue That Is Rightfully Due, and Use Electronic Commerce. Protect the Public activity programs are Assure the Integrity of the Products, People, and Companies in the Marketplace; Ensure Compliance with Laws and Regulations Through Education, Inspection, and Investigation; and Inform the Public.

Interwoven with the three major activities is program and administrative support, which includes all areas that support the Bureau's major activities. For example, ATF's Training and Professional Development Directorate supports and develops training not only for ATF employees, but also for state, local, and international law enforcement agencies. The following descriptions are provided that depict the Bureau's activities and programs:

| REDUCE VIOLENT CRIME | COLLECT REVENUE | PROTECT THE PUBLIC |
|--|--|---|
| <p>Effectively contribute to a safer America by reducing the future number and cost of violent crimes through enforcing Federal firearms, explosives, and arson laws.</p> <ul style="list-style-type: none"> <p>• Deny Criminals Access to Firearms</p> <p>Identifies and deters the sources of and participation in illegal firearms trafficking.</p> <p>• Safeguard the Public from Arson and Explosives Incidents</p> <p>Identifies and pursues those who criminally misuse explosive materials and fires.</p> <p>• Remove Violent Offenders from our Communities</p> <p>Investigates, arrests, and recommends for prosecution violent criminals who violate firearms and explosives laws in their criminal activity.</p> <p>• Prevent Violence Through Community Outreach</p> <p>Focuses on community efforts designed to encourage and participate in the prevention of violence.</p> | <p>Maintain a sound revenue management and regulatory system that continues to reduce taxpayer burden, improves service, collects the revenue due, and prevents illegal diversion.</p> <ul style="list-style-type: none"> <p>• Collect all the Revenue Rightfully Due</p> <p>Ensures that all revenues eligible and due are collected.</p> <p>• Establish a National Revenue Center</p> <p>Develop systems and processes to ensure that the revenues received and paid out are effectively and timely managed.</p> <p>• Use Electronic Commerce</p> <p>Reduce the taxpayer burden associated with collection of the revenue and develop the ability to provide real-time data.</p> | <p>Protect the public and prevent consumer deception in ATF's regulated commodities.</p> <ul style="list-style-type: none"> <p>• Assure the Integrity of the Products, People, and Companies in the Marketplace</p> <p>Ensure that commodities meet safety and product identity standards and keep ineligible or prohibited persons out of the industry.</p> <p>• Ensure Compliance with Laws and Regulations Through Education, Inspection, and Investigation</p> <p>Ensure that firearms and explosives are properly accounted for and required records on regulated commodities are kept.</p> <p>• Inform the Public</p> <p>Educate the public on ATF's regulated commodities.</p> |

HIGHLIGHTS

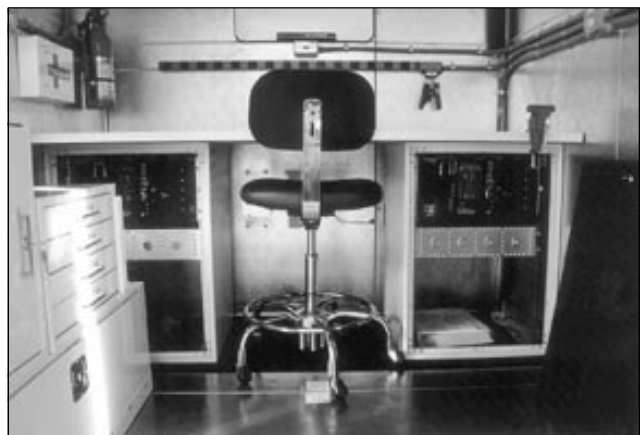
- ✓ Celebrated its “25th Anniversary” as a Bureau (July 1, 1972 - July 1, 1997) and over 200 years of dedicated service to the American public.
- ✓ Revised ATF’s strategic plan based on environmental assessment surveys issued to customers, stakeholders, and ATF personnel.
- ✓ Received four Hammer Awards from Vice President Gore’s National Performance Review. The awards were given to the Partnership Formula Approval Process Team, CEASEFIRE Team, Out-of Business Records Management Team, and Project LEAD Team.
- ✓ The “Disarming the Criminal Program,” ATF’s firearms trafficking enforcement effort, was a finalist in the Innovations in American Government Awards Program.
- ✓ Issued a preliminary report by the Explosives Taggant Study Group that was established to explore the practicality of introducing tracer elements into explosives.
- ✓ Developed the Arson and Explosives National Repository which will serve as a statistical and investigative database for arson and explosives incidents. The information will be available to authorized Federal, state and local agencies.
- ✓ The National Church Arson Task Force issued a report to the President outlining the accomplishments of its first year.
- ✓ Expanded CEASEFIRE program and deployed the Integrated Ballistic Information System technology to eight new sites.
- ✓ Traced all recovered crime guns involved with the Youth Crime Gun Interdiction Initiative.
- ✓ Began the development of a joint explosives detection canine pilot program with the Federal Aviation Administration for use at Washington National Airport and Dulles International Airport.
- ✓ Undertook a major recruitment effort of special agents and inspectors. ATF received, screened, and handled approximately 4,000 special agent applications and 1,100 inspector applications. ATF is currently conducting interviews and is expected to hire approximately 96 special agents and 48 inspectors.
- ✓ Established the National Revenue Center in Cincinnati. Reduced the number of locations performing tax and permit functions to consolidate resources and improve consistency. Initiated document imaging operations to reduce storage and handling of paper files and improve accessibility of information. Began automation of industry statistical information which will enhance analytical and compliance monitoring capability.



HIGHLIGHTS

- ✓ Hosted an international conference on fire research that was attended by 65 world experts on the subject. The ideas and information exchanged will enhance our development of the ATF Fire Investigation and Research Center in partnership with the academic community.
- ✓ Conducted 22 “train-the-trainer” classes with 665 police officers participating from across the United States in ATF’s Gang Resistance Education and Training Program (GREAT). The program curriculum, designed to decrease gang violence across the nation, is taught by trained, uniformed police officers and ATF special agents to children in the seventh and eighth grades. In FY 1997, 471 state and local agencies sponsored GREAT classes for over 314,000 school children.
- ✓ Deployed 1,144 desktops and laptops in the first phase of Enterprise Systems Architecture to six field divisions and 58 field offices. Enterprise Systems Architecture is a new concept in the acquisition of information technology that allows for the cyclical replacement and upgrades of technology.
- ✓ Created the Diversion Branch to deal with diversion of cigarettes and distilled spirits across state and national borders in violation of law. The new branch combines investigative, regulatory and intelligence gathering expertise to combat loss of revenue in partnership with state, international and other Federal agencies.
- ✓ Designed and commissioned the construction of a Rapid Response Laboratory that will provide versatile laboratory services directly on site at crime scenes.
- ✓ Distributed a standard hand held portable radio to each special agent and produced two mobile radio communications platforms to support critical incidents with radio communications in remote areas.
- ✓ Expanded ATF’s Internet web site (<http://www.atf.treas.gov>) with a host of information and received more than 20,000 visits per month. ATF forms were placed on the web site enabling the public and industry members to download and fill out the forms.
- ✓ Completed Headquarters restructuring, the second of a three phase approach to structure the Bureau for maximum effectiveness in developing programs and policies; and in utilizing ATF resources. Began the third phase, field restructuring.
- ✓ Completed the first phase of a procurement subsystem (Procurement Desktop) with the intention of creating an electronic desktop environment for processing all future financial transactions.
- ✓ Trained ATF employees 15, 893 times (an ATF employee may have attended one or more training sessions); and 34,824 other Federal, state, local, and international law enforcement officers, and industry personnel.

ATF’s new mobile radio communications platform.



ORGANIZATIONAL PROFILE



ORGANIZATIONAL PROFILE

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

In August 1997, ATF's headquarters structure was modified to: (a) improve the span of control at the headquarters level; (b) elevate and consolidate the alcohol and tobacco functions as well as consolidate the firearms, explosives and arson functions to serve industry and law enforcement; (c) combine like functions, as well as integrate main mission programs with attendant services; and (d) facilitate cross-functional teamwork in managing and executing daily operations.

During FY 1997, a Field Process and Structure Focus Group studied ATF's field organization. As a result of this group's recommendations, a proposal is being formalized to combine both regulatory enforcement and criminal enforcement field operations and facilities. When this final phase is completed in FY 1998, ATF will have established a field operational structure that will improve and expand expertise in each of the product areas it handles, and will provide an

environment in which core processes can be conducted in the most effective manner.

As of September 30, 1997, ATF employed 3,924 individuals. An overview of the Bureau's structure and major offices follows.

Bureau Headquarters, Washington, D.C., consists of offices that develop major policies and programs in accordance with the applicable laws and regulations ATF enforces. The ATF executive structure consists of the Director; Deputy Director; Chief Counsel; and the Assistant Directors for Field Operations; Firearms, Explosives and Arson; Alcohol and Tobacco; Inspection; Liaison and Public Information; Management/Chief Financial Officer; Science and Technology/Chief Information Officer; and Training and Professional Development.

ORGANIZATIONAL PROFILE

Office of the Director includes the Deputy Director, Ombudsman (resolves the work-related concerns of employees, supervisors, and customers), Executive Assistants for Legislative Affairs, Equal Opportunity, and the Strategic Planning Office.

Office of Field Operations consists of offices in every major U.S. city, and in Mexico, Canada, and Colombia. The office implements national program objectives and priorities. The current field structure consists of:

- Five Regulatory Enforcement District Offices that implement major policies and programs relating to tax statutes and civil actions involving the regulated industries, and provide oversight and coordination to all ATF field regulatory enforcement operations.
- Twenty-one Criminal Enforcement Field Division Offices that implement major policies and



ORGANIZATIONAL PROFILE

programs, coordinate regulatory and criminal enforcement investigations, and assist other Federal, state, and local law enforcement officials with alcohol, tobacco, firearms, explosives, and arson investigations.

Office of Firearms, Explosives and Arson has as its primary mission the development and oversight of policies and programs relating to the enforcement of firearms, explosives and arson statutes. The office also addresses all issues dealing with the regulation and oversight of the firearms and explosives industries. Additional responsibilities include the coordination, support and monitoring of enforcement projects executed by the field offices, such as the National Response Team, Arson and Explosives National Repository, and Youth Crime Gun Interdiction Initiative. Further, it maintains liaison and an open dialogue with outside entities that have an interest in law enforcement and regulatory control of firearms and explosives to ensure that the Bureau speaks with one voice.

Office of Alcohol and Tobacco oversees all activities that relate to the production, processing, distribution, and use of alcohol beverages; industrial alcohol, tobacco, and related products; and the collection of special (occupational) and excise taxes. The office enforces the provisions of the Federal Alcohol Administration Act relating to consumer protection and trade

practices in the alcohol beverage field. It also reviews business practices used by the regulated industries and concentrates on illegal diversion activity.

Office of Inspection serves as principal assistant to the Director in planning, directing, and coordinating the inspection and internal affairs activities of the Bureau. The office appraises the effectiveness of operations, assesses the quality of management and supervision, and determines adherence to organizational policies, regulations and procedures. The office is also responsible for conducting employee integrity investigations.

Office of Liaison and Public Information serves as principal advisor to the Director on matters relating to the public, media and industry information, policies, and compliance with the Freedom of Information and Privacy Acts. This office coordinates and reviews the responses to all inquiries received from the Department of the Treasury and Congressional offices, as well as correspondence for the Director.

Office of Management/Chief Financial Officer serves as principal assistant to the Director in planning and executing the support programs of the Bureau, including management analysis, financial management, personnel management, administrative programs such as directives, space and facilities management, procurement and property. As the

ORGANIZATIONAL PROFILE

Bureau's Chief Financial Officer, the Assistant Director provides leadership and guidance on the general principles, standards, practices, and functions of financial management and on management (internal) controls.

Office of Science and Technology/Chief Information Officer is responsible for developing, implementing, and maintaining ATF's information technology resources as well as the National Laboratory Center in Maryland and field laboratories in Atlanta and San Francisco that perform forensic work and alcohol and tobacco product examinations. This office also contains professional auditors who work on a variety of criminal, regulatory and internal programs; and a cadre of technical support personnel that provides radio communications, tactical operations, and audio/visual support.

Office of Training and Professional Development serves as the principal Bureau change agent and focal point for planned organizational development by fostering a collaborative team approach to achieve consistency in training and development. It manages and provides resources for all internal and external training and development for the Bureau; provides training to external customers - other Federal agencies, states, local agencies, and international agencies; and oversees nationwide violent crime prevention and intervention outreach programs.

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

National Tracing Center in Falling Waters, West Virginia is the only facility of its kind in the United States which provides 24-hour tracing assistance to Federal, state, local, and foreign law enforcement agencies investigating violent crimes involving firearms.

National Licensing Center in Atlanta, Georgia processes all Federal license applications and operating permits for firearms and explosives. The licensing center is also the repository for all ATF inspection reports on licensees and permittees.

National Revenue Center in Cincinnati, Ohio reviews and acts upon tax, permit, claim, and regulatory matters nationwide. The center works in conjunction with the Technical Services Offices located strategically throughout the United States.

Laboratory service centers are located in Maryland, Georgia, and California. The laboratory personnel test alcohol and tobacco products, and support investigations by conducting forensic examinations on firearms, arson, and explosive materials.

ATF Academy, located at the Federal Law Enforcement Training Center in Glynco, Georgia, and an office of the Career Development Division, located at Fort McClellan in Alabama oversees

ORGANIZATIONAL PROFILE

THE EVOLUTION OF ATF

1996 **ANTITERRORISM AND EFFECTIVE DEATH PENALTY ACT** – amended the Federal explosives laws, including enhanced penalties for some explosives offenses, ATF enforcement of plastic explosives marking-detection requirement, and authorization to study the use of taggants in certain explosive materials.

1994 **VIOLENT CRIME CONTROL AND LAW ENFORCEMENT ACT** – amended and strengthened current Federal firearms and explosives laws enforced by ATF.

1993 **BRADY LAW** – created a mandatory 5-day waiting period for purchasing handguns. Provision allows law enforcement to check the background of each handgun purchaser before delivery of any handguns is made by Federal firearms dealers. (Waiting period provisions took effect in 1994)

1992 **GANG RESISTANCE EDUCATION AND TRAINING (GREAT)** – established program for gang violence prevention.

1988 **ALCOHOL BEVERAGE LABELING ACT** – required the Government warning statement to appear on alcohol beverages distributed in the United States.

1984 **ARMED CAREER CRIMINAL ACT / COMPREHENSIVE CRIME CONTROL ACT** – amended the 1968 Gun Control Act, establishing mandatory sentences for armed drug traffickers and violent career criminals.

1982 **ANTIARSON ACT** – amended Explosives Control Act to include destruction of property by fire along with destruction by explosives.

1978 **CONTRABAND CIGARETTE ACT** – ATF helped state enforcement agencies to improve their enforcement and revenue collection capabilities, in response to the millions of dollars being lost to the state by cigarette smuggling from low-tax to high-tax states. Bureau began developing an entirely new Federal effort against an emerging crime problem: arson.

1972 Alcohol, Tobacco and Firearms Division was separated from the IRS and given full Bureau status in the Treasury Department as the Bureau of Alcohol, Tobacco and Firearms.

1970 **TITLE XI OF THE ORGANIZED CRIME CONTROL ACT OF 1970** – contained provisions for industry regulations and established certain bombings and arsons as Federal crimes; and the Alcohol and Tobacco Tax Division name changed to the Alcohol, Tobacco and Firearms Division under the IRS.

1968 **GUN CONTROL ACT** – created stricter licensing and regulation of the firearms industry, established new categories of offenses involving firearms, and the first direct Federal jurisdiction aimed at criminal use of explosives. Responsibilities delegated to the Alcohol and Tobacco Tax Division.

1954 **INTERNAL REVENUE CODE** – Alcohol and Tobacco Tax Division gained jurisdiction over the regulation and tax collection on the alcohol beverages, tobacco products and firearms industries.

1952 As a result of tobacco tax duties being delegated to the Alcohol Tax Unit in 1951, the unit title was changed to the Alcohol and Tobacco Tax Division of the Internal Revenue Service (IRS).

1938 **FEDERAL FIREARMS ACT** – established regulations of the firearms industry and made it a crime for felons and fugitives to receive firearms in interstate commerce.

1935 **FEDERAL ALCOHOL ADMINISTRATION ACT** – created licensing and permit requirements and established regulations designed to ensure an open and fair marketplace to the legal businessman and to the consumer.

1934 **NATIONAL FIREARMS ACT** – imposed criminal, regulatory, and tax laws on gangster-type weapons such as machine guns; and the Bureau of Prohibition turned over its responsibilities to a newly created Alcohol Tax Unit within the Bureau of Internal Revenue.

1933 **21ST AMENDMENT TO THE CONSTITUTION** – Prohibition Era ended.

1927 Prohibition Unit became the separate Bureau of Prohibition, under the Department of Justice.

1919 **18TH AMENDMENT TO THE CONSTITUTION RATIFIED** – ushered in the Prohibition Era, when it was illegal to manufacture, sell, or transport intoxicating liquors for beverage purposes. Prohibition Unit established under the Commissioner of Internal Revenue.

1794 **WHISKEY REBELLION** – violent resistance to the established authority of the Federal Government to levy the excise tax on distilled spirits.

1791 **CONGRESS IMPOSED THE FIRST FEDERAL TAX ON DISTILLED SPIRITS.**

ORGANIZATIONAL PROFILE

much of the basic and advanced training for the Bureau's special agents, inspectors, and auditors. State and local law enforcement officials also attend certain ATF-sponsored courses at the academy, as do foreign officers sponsored through the Department of State.

Additional information on the Bureau's structure, key offices, and programs can be found in the Program Discussion and Analysis section of this report.

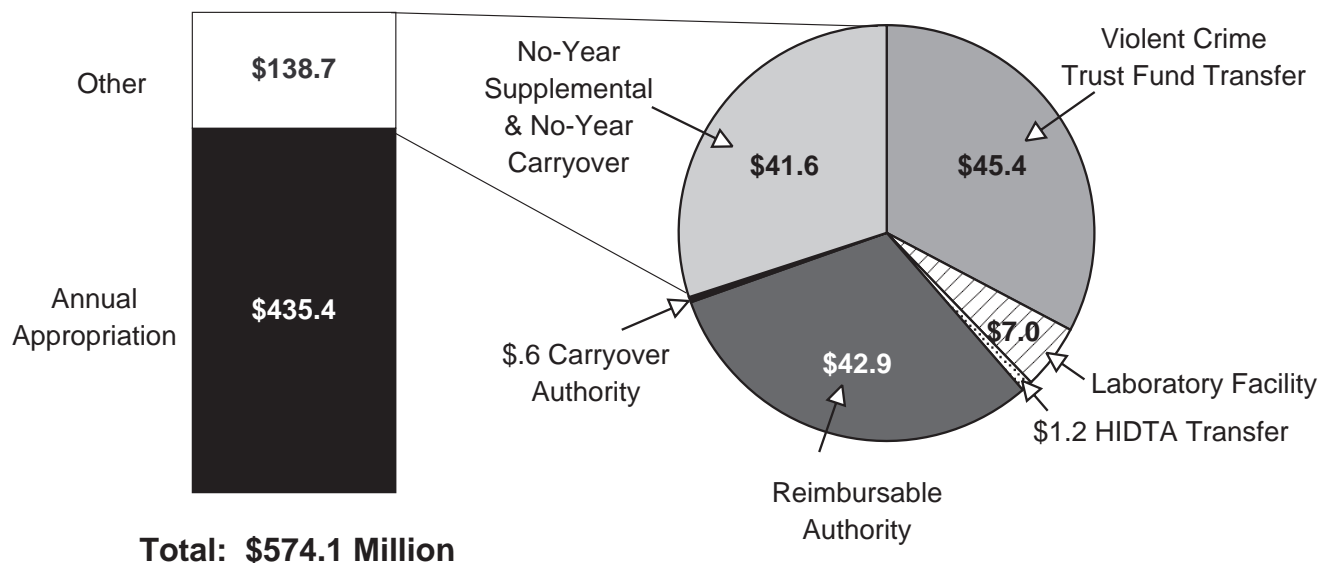
FUNDING

SOURCES OF FUNDS

The total budget authority available for use by ATF in FY 1997 was \$574.1 million. Of that amount, the Congress appropriated \$435.4 million for the Bureau's operations, and an additional \$138.7 million was made available from other sources. These other sources

included the following: no-year supplemental and no-year carryover funds of \$41.6 million; \$45.4 million from the Department of Justice's Violent Crime Trust Fund (comprising \$11.6 million from the Gang Resistance Education and Training Program and \$33.8 million for the category of Violent Crime); and \$7.0 million in no-year supplemental funding. Other sources of funding also included: appropriation transfers of \$1.2 million from the Office of National Drug Control Policy to support ATF efforts in High Intensity Drug Trafficking Areas; \$42.9 million in reimbursable authority from other Government agencies; and additional resources of \$0.6 million, which represents 50 percent of the FY 1996 unobligated balance.

SOURCES OF FUNDS
FY 1997



ORGANIZATIONAL PROFILE

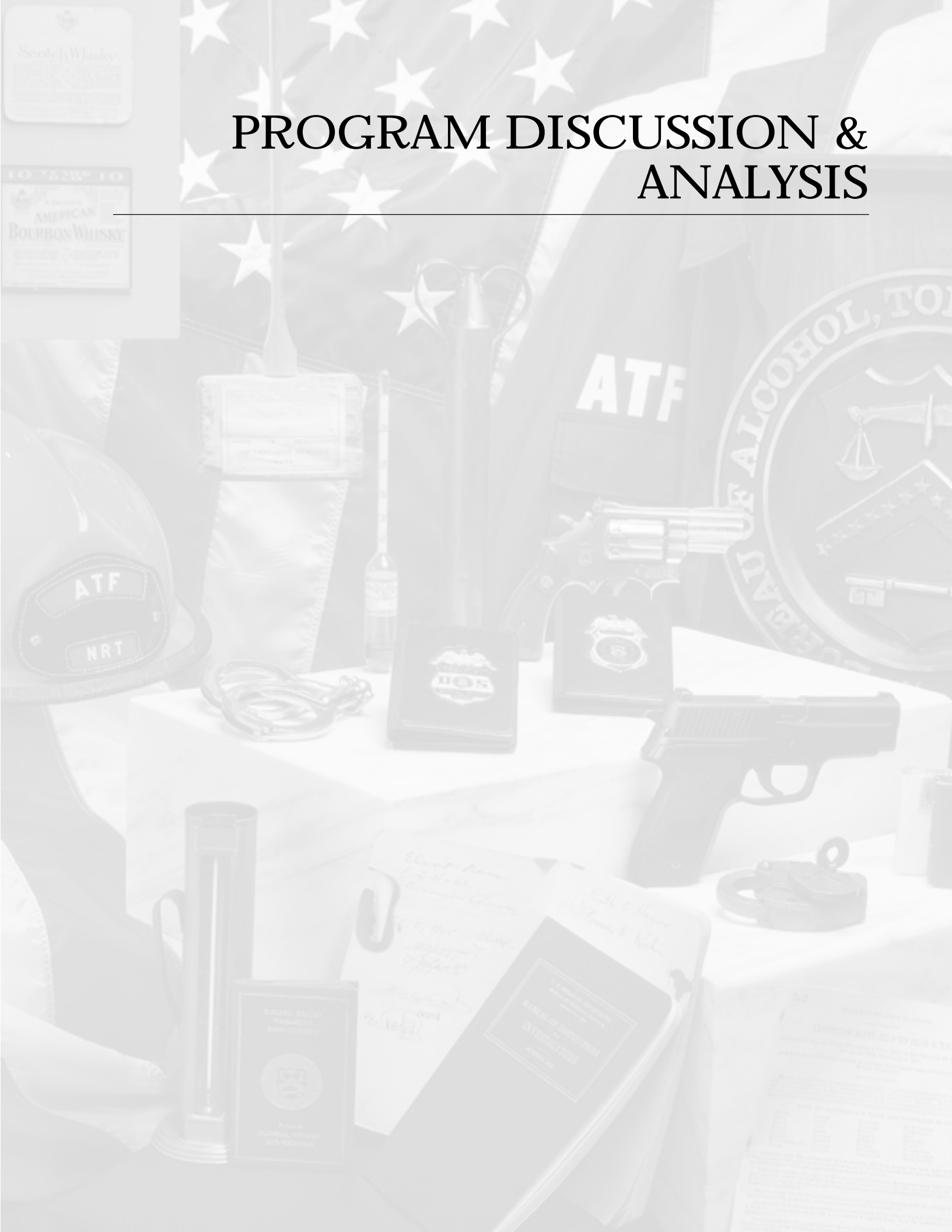
USES OF FUNDS

ATF incurred obligations of \$517.5 million during FY 1997. Of that amount obligations occurred for employee salaries and benefits; fixed costs such as rent and communications; and day-to-day operational program costs such as travel, transportation, supplies, and

equipment. Of the remaining \$56.5 million in budget authority that was not obligated in FY 1997, \$32.9 million represents no-year appropriation carryover funds available for use in FY 1998.

No-year reimbursable funding of \$21 million will be available for use in FY 1998. The remaining \$2.5 million, which represents less than one percent of the FY 1997 budget authority, will not be available for use in future years.

PROGRAM DISCUSSION & ANALYSIS



PROGRAM DISCUSSION & ANALYSIS (REDUCE VIOLENT CRIME)

ATF's complex tax collecting, regulatory, and enforcement missions are interwoven. Historically, the Bureau's budget displayed criminal and regulatory enforcement activities in the four major programs of alcohol, tobacco, firearms, and explosives. However, during FY 1996, ATF reviewed the criminal and regulatory budget activities and developed a new structure that is more consistent with the Bureau's strategic plan and mission. The Bureau further refined the structure in FY 1997. The new mission activities, Reduce Violent Crime, Collect Revenue, and Protect the Public, were incorporated into the Bureau's FY 1998 budget request to Congress.

Recognizing the prominent role of firearms, explosives, and arson in violent crimes, ATF—with primary enforcement jurisdiction for Federal firearms, explosives, and arson laws—enforces provisions of the Gun Control Act of 1968, the National Firearms Act, the Brady Law, and the Violent Crime Control and Law Enforcement Act of 1994 to combat these types of crimes. Because many Federal laws contain provisions for mandatory extended sentences, ATF strives to increase state and local awareness of available

Federal prosecution under these statutes. To accomplish all of this, ATF pursues an integrated enforcement strategy through four major programs supporting the *Reduce Violent Crime* activity: *Deny Criminals Access to Firearms, Safeguard the Public from Arson and Explosives Incidents, Remove Violent Offenders from our Communities, and Prevent Violence Through Community Outreach.* Each of these programs is supported by projects detailed in the following discussion.

Special Agents display some of the most frequently recovered and traced crime guns.



DENY CRIMINALS ACCESS TO FIREARMS

The Deny Criminals Access to Firearms program involves projects and services that identify, deter, and stop the sources of and participation in illegal firearms trafficking.

ILLEGAL FIREARMS TRAFFICKING

ATF reduces the availability of “black market” firearms to criminals by identifying illegal sources

of firearms and incarcerating illegal firearms traffickers. Overall goals include recommending for prosecution the most active illegal firearms traffickers, preventing future firearms crimes,

PROGRAM DISCUSSION & ANALYSIS (REDUCE VIOLENT CRIME)

and reducing crime-associated costs by incarcerating illegal firearms traffickers. In FY 1997, ATF accomplished the following in support of the nationwide illegal firearms trafficking strategy:

- developed an illegal firearms trafficking guidebook that is the definitive reference for ATF special agents, as well as state and local investigators, to use for direction and advice during the course of illegal firearms trafficking investigations and strategy formulation;
- held four one-week illegal firearms trafficking schools for a total of 245 ATF stu-

dents and 22 State, local and other Federal law enforcement students;

- conducted two basic firearms interstate nexus schools and two advanced firearms interstate nexus schools for a total of 53 ATF students;
- provided onsite refresher training to four field divisions for approximately 450 ATF students; and
- conducted a joint Canadian/ATF firearms school for 35 ATF employees and 55 Canadian law enforcement officers.

| ILLEGAL FIREARMS TRAFFICKING | | |
|---|---------|---------|
| | FY 1997 | FY 1996 |
| Cases forwarded for prosecution | 1,180 | 1,043 |
| Defendants recommended for prosecution* | 2,019 | 2,230 |
| Number of firearms illegally trafficked by the defendants prior to recommendation for their prosecution | 51,540 | 34,491 |
| Future firearms-related crimes avoided** | 106,014 | 53,520 |
| Number of trafficking referrals resulting from inspections | 1,152 | 715 |
| Crime-related costs avoided in millions** | \$84.4 | \$38.8 |

* Statistics do not have a direct corresponding relationship in the same fiscal year because the time period from the investigation being initiated until sentencing may span several years.

** Each defendant is sentenced to an average of three years in Federal prison as an illegal firearms trafficker. The annual cost savings produced by this program will grow each year until the fourth year of the program when the programs first year defendants will begin to be released. In the fourth year the programs cost savings will reach their highest level and remain fairly constant throughout the future life of the program.

PROGRAM DISCUSSION & ANALYSIS (REDUCE VIOLENT CRIME)

YOUTH CRIME GUN INTERDICTION INITIATIVE

The Youth Crime Gun Interdiction Initiative is a focused component of ATF's nationwide Illegal Firearms Trafficking Program which identifies and investigates the illegal sources of guns to youths and juveniles. In response to increased crimes involving America's youth, ATF developed and deployed the Youth Crime Gun Interdiction Initiative in FY 1996. In FY 1997, the Youth Crime Gun Interdiction Initiative was deployed in 17 cities to include Atlanta, Georgia; Baltimore, Maryland; Birmingham, Alabama; Boston, Massachusetts; Bridgeport, Connecticut; Cleveland, Ohio; Inglewood, California; Jersey City, New Jersey; Memphis, Tennessee; Milwaukee, Wisconsin; New York, New York; Richmond, Virginia; St. Louis, Missouri; Salinas, California; San Antonio, Texas; Seattle, Washington; and Washington, DC. Eighty-six criminal investigations were initiated in the 17 sites which resulted in the recommendation of 90 defendants for prosecution, 61 arrests, and 15

sentencings. Many of these investigations are ongoing. A major goal of the Youth Crime Gun Interdiction Initiative is to trace all recovered crime guns. This goal was met in FY 1997 with more than 36,000 recovered crime guns traced in the 17 cities.

In July 1997, due to the successful tracing efforts, 17 comprehensive trace analysis reports were produced and released for use by law enforcement to develop community level enforcement strategies. Also in July 1997, the President of the United States announced the expansion of the Youth Crime Gun Interdiction Initiative to 10 additional cities. Efforts in those cities will begin in FY 1998.

NATIONAL TRACING CENTER

The ATF National Tracing Center is the only operation of its kind in the world. This facility traces firearms recovered in crimes and from juveniles for any Federal, state, local or international law enforcement agency. A firearms trace result is frequently the crucial piece of evidence that can link a criminal to a firearms-related crime and allow law enforcement officials to make an arrest. At a minimum, firearms trace information provides investigators with leads on the origin of the crime-related firearms in their investigations. The tracing center is also the only

FIREARMS TRACING

| | FY 1997 | FY 1996 |
|---|---------|---------|
| Requests for firearms tracing processed | 191,378 | 116,674 |
| Average days of response time | 13.5 | 9.4 |

PROGRAM DISCUSSION & ANALYSIS (REDUCE VIOLENT CRIME)

repository for all Federal firearms licensee out-of-business records, where millions of records are currently stored. Specific goals for FY 1997 were to increase the number of trace requests received through efficiency improvements involving increased electronic access to the tracing center. All specific National Tracing Center goals for FY 1997 were accomplished, to include the following:

- increased electronic access to the National Tracing Center for state, local, and other Federal law enforcement agencies by establishing electronic batch downloading in six cities and ensuring 18 states placed a crime gun trace request screen on the National Law Enforcement Telecommunications System;
- established the “Crime Gun Information Analysis Section” at the National Tracing Center;
- increased by 60 percent the number of crime gun trace requests received at the National Tracing Center as a result of increased electronic access;
- developed and deployed a new crime gun trace request form, Crime Gun Information Referral/Request Form (ATF F 3312.1), which serves as a trace request, suspect gun entry, stolen firearms information referral, and firearms with obliterated

serial number information referral; and

- deployed a new crime gun trace results form which provides the trace requester with enhanced value results similar to an intelligence referral in addition to trace results.

STOLEN FIREARMS

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

| STOLEN FIREARMS | | |
|--|---------|---------|
| | FY 1997 | FY 1996 |
| Number of theft reports received from Federal firearms licensees | 2,532 | 2,509 |
| Number of Federal firearms licensees reporting thefts | 2,155 | 2,082 |
| Number of firearms involved in licensee theft reports | 12,302 | 12,395 |
| Number of theft reports received from Interstate Carriers | 733 | 1,139 |
| Number of firearms involved in carrier theft reports | 2,094 | 2,748 |

PROGRAM DISCUSSION & ANALYSIS (REDUCE VIOLENT CRIME)

SAFEGUARD THE PUBLIC FROM ARSON AND EXPLOSIVES INCIDENTS

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

PREVENT CRIMINAL MISUSE OF EXPLOSIVES

Through this program, ATF provides resources to identify and pursue those who criminally misuse explosive materials in bombings and arson fires. Efforts in this regard include the following.

ATF maintains the Explosives Incidents System, which is a computerized repository for historical and technical data on reported arson and explosives incidents that is helpful in determining motives, trends, and similarities. Statistical data are available in ATF's annual *Arson and Explosives Incidents Report* and *Arson Case Briefs* publications. In addition, ATF is the focal point for other Federal, state, and local law enforcement agencies to initiate traces of explosives. This capability is also applicable to foreign commercial and military explosives, ordnance, and munitions.

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

PROGRAM DISCUSSION & ANALYSIS (REDUCE VIOLENT CRIME)

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

In FY 1997, these experts provided onsite technical investigative assistance on 300 incidents; conducted explosive device or booby trap render safe procedures in connection with 25 investigations; prepared 232 written expert witness explosive device determinations; participated in Department of State antiterrorism capability assessments in 14 foreign countries; and provided instruction on explosives investigative and regulatory matters to other Federal, state, local, and foreign law enforcement officers, and members of the explosives and pyrotechnic industries on 104 occasions.

CHURCH FIRES

ATF established a church fire major case team during 1996 in response to a dramatic increase in church arsons nationwide. The team maintained a central repository for collecting, analyzing, and disseminating information while coordinating and monitoring all aspects of each investigation. This team became the foundation for the President's National Church Arson Task Force. In June 1997, the task force completed its first year of investigating church fires occurring throughout the United States. The task force, consisting of ATF, Federal Bureau of Investigation, Federal Emergency Management Agency, Community Relations Service, Department of Housing and Urban Development, and Department of Justice, prepared its first report for the President outlining the year's accomplishments.

ATF and its major case team were instrumental in the success of the task force and the accomplish-

ATF agents on a church fire investigation.



PROGRAM DISCUSSION & ANALYSIS (REDUCE VIOLENT CRIME)

ments achieved during the first year. ATF was tasked with determining the origin and cause of each church fire incident investigated by the task force because of its expertise in arson and explosives investigations. The major case team was tasked with providing investigative oversight to ensure each investigation received the necessary resources and priorities. Since June 1996, the task force has coordinated the efforts of Federal, state and local law enforcement agencies investigating church fires. At the conclusion of the first year, the task force had opened 429 arson and bombing investigations that occurred at houses of worship. Federal, state and local authorities have arrested 199 suspects since January 1995, in connection with 150 of the 429 investigations. The task force has a 35 percent solution rate. This 35 percent solution rate in task force cases is more than double the 16 percent solution rate for arson in general.

ATF continues to promote church arson awareness and arson prevention by making outreach presentations to community leaders, churches, and organizations throughout the country. In addition to the outreach activities, the task force distributes the *Church Threat Assessment Guide* which contains valuable information on the steps that can be

taken to prevent fires at houses of worship; the steps to follow after an incident has occurred; and the toll-free numbers 1-888-ATF-FIRE and 1-888-ATF-BOMB. This guide was originally developed and distributed by ATF. The Task Force has adopted the guide and now distributes it nationwide. The guide continues to be accessible to the public on the ATF web site (<http://www.atf.treas.gov>). ATF and the task force continue to investigate and recommend prosecution of those responsible for burning our Nation's houses of worship. ATF is committed to seeing this task completed.

CANINES

In 1989, ATF and the Connecticut State Police began a formal training program for accelerant-detecting canines to support state and local jurisdictions (accelerant-detecting canines search for liquid catalysts that can be used to speed up the spread of fire). Through FY 1997, a total of 56 accelerant-detecting canines have been trained and certified by ATF for state and local agencies. In FY 1997, ATF recertified 44 canine teams. In March 1998, six additional accelerant detection canine teams will be trained by ATF at the Canine Enforcement Training Center in Front Royal, Virginia.

PROGRAM DISCUSSION & ANALYSIS (REDUCE VIOLENT CRIME)

In 1990, ATF entered into an agreement with the U.S. Department of State, Office of Antiterrorism Assistance to produce a more effective explosive detection canine. Under this training arrangement, ATF trains explosives detection canines for foreign countries to be used overseas in the war against terrorism and to protect American travelers abroad against terrorism. ATF has trained 150 canine teams for the program, deployed in eight countries worldwide. In FY 1997, ATF trained an additional 35 canine teams and eight canine trainers for the Department of State, Office of Antiterrorism Assistance. ATF continues to perform assessments of additional foreign countries for placement in this program. ATF has eight special agent/canine teams stationed in Atlanta, Chicago, Dallas, Miami, Los Angeles, San Francisco, and two teams stationed in Washington, DC.

ATF has developed odor recognition proficiency standards for explosives detection canines. These were published by the Department of the Treasury. ATF will continue to work in conjunction with other Federal agencies employing explosives detection canines to validate and test this standard over the next year. The White House Commission on Aviation Safety and Security Report, dated September 12, 1997,

recommended that ATF continue to work on developing Government-wide standards for canine teams.

Further, the House Committee on Appropriations requested that ATF and the Federal Aviation Administration conduct a joint explosives detection canine pilot program at Washington National Airport and/or Dulles International Airport. The Bureau has been engaged in discussions with Federal Aviation Administration and the Metropolitan Washington Airport Authority to discuss deploying handler/canine teams to Dulles International Airport. The following implementation plan has been agreed upon by all three agencies:

- The pilot will last one to two years and will start at both Washington National Airport and Dulles International Airport;
- Four handler/canine teams will be used in the study to ensure both agencies' programs are represented; and

| CANINES | | |
|---|---------|---------|
| | FY 1997 | FY 1996 |
| Explosives-detecting canines trained and deployed internationally | 35 | 26 |

PROGRAM DISCUSSION & ANALYSIS (REDUCE VIOLENT CRIME)

- All three agencies will jointly draft and sign a memorandum of agreement outlining the terms and conditions of the pilot program.

ATF has trained one explosives detection canine team for a local police department in conjunction with this joint canine explosives detection pilot project. It is anticipated that the pilot study will begin in November 1997.

RESEARCH INITIATIVES

In FY 1997, in conjunction with the U.S. Army Corps of Engineers, the National Security Council, and the Defense Nuclear Agency, ATF continued to participate in a project known as Dipole Might. Its objective is to create a computer database and investigate protocol to assist investigators when processing large car bomb scenes.

Currently, the Bureau has two full-time fire protection engineers, making ATF the only Federal enforcement agency that employs this level of expertise. ATF's fire protection engineers are dedicated solely to the analyses of origins and dynamics of fire as they pertain to criminal investigations.

In FY 1996, President Clinton signed the Antiterrorism and Effective Death Penalty Act which called for a study of taggants. ATF continues to use an Explosive Taggant Study Group to study the tagging of explosive materials for purposes of detection and identification; the feasibility and practicality of rendering common chemicals used to manufacture explosive materials inert; the feasibility and practicability of imposing controls on certain precursor chemicals used to manufacture explosives materials; and State licensing requirements for the purchase and use of commercial high explosives. An interim report has been prepared and is currently under review. A final report will be issued in FY 1998.

In FY 1996, Congress approved funding for the construction of a new National Laboratory Center and Fire Investigation, Research and Education Center. ATF is currently involved in site negotiations and programming for the facility. This stage should be completed by April 1998. The building design is expected to be completed between April 1998 and April 1999. Both buildings will be fully operational by 2001.

PROGRAM DISCUSSION & ANALYSIS (REDUCE VIOLENT CRIME)

EFFECTIVE POST-INCIDENT RESPONSE

ATF has long held that a coordinated and rapid deployment of highly trained and well-equipped individuals and related support functions is critical to the investigation of any arson or explosives incident. This "team approach" is the basis for ATF's National Response Team, its International Response Team, division response teams, and arson task forces.

ATF's National Response Team can respond within 24 hours to major bombing and fire scenes anywhere in the United States. In FY 1997, the team provided effective post-incident response in 36 activations. These incidents involved \$243.2 million in damages and were responsible for 54 deaths and 107 injuries. The National Response Team also provided continued assistance in the investigation of the Olympic Centennial Park bombing and the TWA Flight 800 crash.

In FY 1997, the Bureau issued a customer satisfaction survey to those who used the National Response Team that year. ATF has received 32 of the 36 surveys, all of which have been positive. When all surveys are received, ATF will tabulate the data and use it as a tool to determine the effectiveness of the National Response Team.

ATF also maintains the International Response Team, formed as a

result of an agreement with the Department of State. The team has been deployed to such countries as Peru, Argentina, Pakistan, El Salvador, and Macedonia. Since its inception in 1991, the International Response Team has been activated 13 times for incidents involving explosives and fires. In FY 1997, the International Response Team was activated to Suriname to assist in the investigation of an explosion in Paramaribo. The explosion, believed to be the result of a package bomb, injured one person at the residence/office of a politician.

ATF provides vital resources to local communities in the wake of arson and explosives incidents.

| NATIONAL RESPONSE TEAMS | | |
|--|---------|---------|
| | FY 1997 | FY 1996 |
| Incidents requiring National Response Team expertise | 36 | 22 |
| BOMBING AND ARSON | | |
| EXPLOSIVES-RELATED | | |
| Investigations | 879 | 905 |
| Cases/Defendants | 218/369 | 196/315 |
| Arrests | 244 | 255 |
| ARSON-RELATED | | |
| Investigations | 2,814 | 2,408 |
| Cases/Defendants | 238/440 | 220/450 |
| Arrests | 341 | 301 |

PROGRAM DISCUSSION & ANALYSIS (REDUCE VIOLENT CRIME)

ATF pioneered the development of local multiagency task forces designed to pool resources and expertise in areas experiencing significant arson problems. In FY 1997, ATF led formal arson task forces in 15 major metropolitan areas throughout the United States, and participated in others. In FY 1997, ATF responded to 763

arson incidents that were responsible for 78 deaths and 166 injuries.

A certified fire investigator and a certified explosives specialist are critical to the

success of a comprehensive post-incident response. ATF's certified fire investigators are the only investigators trained by a Federal law enforcement agency to qualify as expert witnesses in fire cause determinations. In FY 1997, there were 48 of these investigators stationed throughout the United States. Twenty-nine certified fire investigator candidates are scheduled to graduate in January 1998 and eighteen are scheduled to graduate in April 1998. This will provide strategic placement of these investigators throughout the country to assist Federal, state and local agencies with fire origin and cause determinations and training. In FY 1997, there were four certified explosives specialist training classes through which 96 were fully certified. In FY 1997, there were 270 certified explosives specialists.

Because many arson crimes involve insurance fraud, these investigations often require complex financial analysis. ATF's Office of Science and Technology, in addition to comprehensive forensic science services, supports the task forces by providing financial auditing services, information systems and equipment, and high-speed data communications. This includes Internet access to facilitate the research and exchange of national and international technical data and intelligence.

The National Response Team investigates a fire scene.



FIRE CAUSE AND ORIGIN

| | FY 1997 | | FY 1996 | |
|-------------------------------|---------|-----|---------|-----|
| Incidents | 2,325 | | 1,945 | |
| Killed | 231 | | 189 | |
| Injured | 615 | | 521 | |
| Property Damage (in millions) | \$532.1 | | \$518.7 | |
| Cause | # | % | # | % |
| Arson | 1,065 | 46 | 920 | 47 |
| Accidental | 817 | 35 | 679 | 35 |
| Undetermined | 443 | 19 | 346 | 18 |
| Total | 2,325 | 100 | 1,945 | 100 |

PROGRAM DISCUSSION & ANALYSIS (REDUCE VIOLENT CRIME)

REMOVE VIOLENT OFFENDERS FROM OUR COMMUNITIES

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

ACHILLES

The Achilles project uses specific Federal firearms laws that mandate extended mandatory periods of incarceration to remove the most dangerous armed career criminals and armed drug traffickers from the streets. Firearms use and possession by these violent criminals becomes their “Achilles heel” as they are exposed to lengthy prison sentences under these Federal laws. The firearms they possess yield valuable information regarding their previous criminal acts and criminal associates. Further, through firearms tracing, the illegal firearms sources for these violent criminals are investigated under ATF’s Illegal Firearms Trafficking project. These two projects are complementary.

A major goal is to incarcerate armed violent criminals for long periods of time to prevent future crimes of violence and the costs of those crimes to the American public. An indication of ATF’s success in focusing limited resources against only the most violent armed criminals can be seen in the increases in the average length of sentence. The

average length of sentence received by defendants under 924(e) - the armed career criminal statute went from 18 years in FYs 1992, 1993, 1994, and 1995 to 19 years in FYs 1996 and 1997. The average length of sentence received by defendants under 924(c) - the armed crime of violence statute went from 6 years in FYs 1992, 1993, 1994, and 1995, to 7 years in FY 1996, and to 11 years in FY 1997. The sentence received

| ACHILLES | | |
|--|---------|---------|
| | FY 1997 | FY 1996 |
| Cases forwarded for prosecution | 1,518 | 2,241 |
| Defendants recommended for prosecution | 2,153 | 3,327 |
| Defendants sentenced | 250 | 440 |
| Total years of sentences | 3,515 | 5,104 |
| Total life sentences received by defendants | 3 | 9 |
| Armed career criminals currently in prison | 2,009 | 1,889 |
| Future crimes avoided ¹ | 321,440 | 302,240 |
| Crime-related costs avoided (in billions) ¹ | \$.7 | \$.7 |

Note: Statistics do not have a relationship in the same fiscal year because the time period from the investigation being initiated until sentencing may span several years.

¹ Crimes avoided and dollars saved are based on the 1991 ATF study “Protecting America,” which examines the effectiveness of the Federal Armed Career Criminal Statute and ATF’s Achilles program. Cost and benefit formulas were developed from this study and are endorsed by the academic and research community and a cross-section of nationwide state and local law enforcement.

PROGRAM DISCUSSION & ANALYSIS (REDUCE VIOLENT CRIME)

by a defendant is attributable in part to the defendant's criminal history or level of violence during the actual offense. Sentences have substantially increased because ATF special agents have been more effective at focusing on the more dangerous and violent armed criminals. ATF is putting the most violent criminals in prison for longer periods of time

VIOLENT OFFENDER

The Violent Offender project was designed to work as an early safety warning and notification system for law enforcement officers in the field. The system records pre-identified violent career criminals who are currently free in society into the National Crime Information Center system. When any law enforcement official encounters one of these individuals, and runs a National Crime Information Center check on the individual, the officer will receive a safety advisory that the person is a career offender, and to contact ATF if the offender is in posses-

sion of a firearm. There are currently 943 pre-identified violent offenders in the National Crime Information Center violent offender file.

In FY 1996, each violent offender encountered with a firearm had an average of 5.7 prior felony convictions and 30.4 years in prior prison sentences. In addition, eight of the 17 subjects had previously received life sentences, but were released or paroled early. In FY 1997, each violent offender encountered with a firearm had an average of 4.88 prior felony convictions and 33.29 years in prior prison sentences. In addition, one of the 18 subjects had previously received a life sentence, but was released or paroled early. When convicted, these criminals receive mandatory sentencing of 15 years to life in prison, without the possibility of probation or parole.

In FY 1997, based on the above statistics, ATF began to evaluate the program to determine if modifications were needed or to identify a more efficient method of accomplishing the same desired outcome. To assist in this evaluation process, ATF requested an independent audit and review by the Office of Inspector General. ATF looks forward to the findings and recommendations contained in the final report.

| VIOLENT OFFENDERS | | |
|---------------------------------|---------|---------|
| | FY 1997 | FY 1996 |
| Cases forwarded for prosecution | 18 | 18 |

PROGRAM DISCUSSION & ANALYSIS (REDUCE VIOLENT CRIME)

CEASEFIRE

The CEASEFIRE project is centered around the use of state-of-the-art ballistics technology. This technology, the Integrated Ballistic Identification System, consists of "Bulletproof" which examines projectiles, and "Brasscatcher," which examines shell casings. The overall CEASEFIRE project goals are to increase the efficiency of firearms examiners, thus reducing future costs associated with the hiring of additional firearms examiners, and to increase the solution rate of shooting incidents by using the system. One-time specific program goals for FY 1997 were to deploy the CEASEFIRE technology to eight new sites and increase the use of the technology both of which were accomplished.

In an effort to unify Federal resources to deploy ballistics technology, there is an existing proposal to combine CEASEFIRE and the Federal Bureau of Investigation's Drugfire Program into a federally sponsored program called the National Integrated Ballistics Information Network. The two systems will not be combined into one platform. However, as proposed, National Integrated Ballistics Network will create a partnership among ATF, the Federal Bureau of Investigation, and State and local law enforcement that makes the most efficient use of all available

resources in reducing firearms-related violent crime. This combined network will be directed by a three-member board.

New generation of ATF's Integrated Ballistic Identification System.



| CEASEFIRE | | |
|---|---------|---------|
| | FY 1997 | FY 1996 |
| Bullets entered into the system | 11,960 | 22,179 |
| Ballistic matches made with projectiles | 23 | 55 |
| Shell casings entered into the system | 15,993 | 26,390 |
| Ballistic matches made with shell casings | 229 | 188 |

- Without Integrated Ballistic Identification System (IBIS), an additional \$171.7 million in salary would have been needed to hire enough Firearms Examiners to perform the work load equivalent to 13.5 Firearms Examiners using the IBIS.
- With the Integrated Ballistic Identification System 13.5 Firearms Examiners were able to accomplish work loads equivalent to the efforts of 7,169 Firearms Examiners not having the Integrated Ballistic Identification System.
- With the Integrated Ballistic Identification System, Firearms Examiner productivity/efficiency was increased 531 times.
- CEASEFIRE was expanded to eight new sites (Tacoma, Washington; Portland, Oregon; Wilmington, Delaware; Omaha, Nebraska; Harrisburg, Pennsylvania; Philadelphia, Pennsylvania; Marion County, Indiana; Lake County, Indiana).

PROGRAM DISCUSSION & ANALYSIS (REDUCE VIOLENT CRIME)

PREVENT VIOLENCE THROUGH COMMUNITY OUTREACH

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

GREAT

The Gang Resistance Education and Training (GREAT) is a school-based gang and violence prevention program taught by uniformed law enforcement officers to elementary and middle school children. ATF administered the program in partnership with the Phoenix Police Department, National Sheriffs' Association, International Association of Chiefs of Police, and Federal Law Enforcement Training Center.

The Bureau provided funding to 74 different agencies to support their participation in the GREAT program. Over 800 different localities are currently teaching the GREAT curriculum in classrooms around the country.

This program has been highly successful in educating young children about the dangers of gangs and violence. A cross-sectional evaluation conducted by the University of Nebraska in Omaha was completed in 1996 and concluded that the GREAT program has had a significant, positive impact on the participants.

| GREAT | | |
|---|---------|---------|
| | FY 1997 | FY 1996 |
| "Train-the-Trainer" classes | 22 | 19 |
| Police officers attending instructor training | 665 | 599 |
| Police departments sending officers to training | 471 | 328 |
| Juveniles graduating from GREAT | 314,000 | 221,000 |

PROGRAM DISCUSSION & ANALYSIS (COLLECT REVENUE)

The goal of the Collect Revenue activity is to maintain an efficient and effective revenue management and regulatory system that continues to reduce taxpayer burden and Government oversight, and collects the revenue due under Federal laws administered by ATF. This activity is supported by three major programs: Collect All Revenue Rightfully Due, National Revenue Center, and Use Electronic Commerce.

COLLECT ALL REVENUE RIGHTFULLY DUE

ATF collected \$12.7 billion, before refunds, in taxes, interest, penalties, and fees in FY 1997. Ninety-eight percent of collections are derived from alcohol and tobacco excise taxes. On-site inspections of those who pay alcohol, tobacco, firearms, and ammunition taxes are focused on facilities offering the greatest risk to the revenue based on the volume of operations, past history of violations, relative strength of internal controls, and financial condition. *A more detailed description of the various types and sources of revenues follows in the Financial Discussion and Analysis section.*

ATF employees continuously monitor tax collections by auditing tax returns and assessments; initiating enforced collection action; analyzing required reports; and accounting for tax payments, licensing fees, and

related refunds. ATF also reviews and acts on applications and surety bonds submitted by companies that produce or sell alcohol or tobacco products.

When criminal conduct is suspected—as with diversion or label fraud cases—teams of ATF special agents, auditors, and inspectors conduct complex investigations of violations of the Federal Alcohol Administration Act and the Internal Revenue Code. ATF also investigates domestic trafficking in contraband tobacco products. This trafficking deprives states of needed tax revenue and violates Federal law. Also certain direct shipments of alcohol beverages to consumers without payment of taxes are in violation of both state and Federal laws and may be investigated by ATF.

In partnership with the Internal Revenue Service, ATF instructed foreign tax police on the U.S. alcohol and tobacco licensing and taxation system. In FY 1997, 203 students from Russia, Ukraine, Belarus, and the Baltic States received this training.

PROGRAM DISCUSSION & ANALYSIS (COLLECT REVENUE)

NATIONAL REVENUE CENTER

ATF's revenue management program includes a variety of processes and functions based on the processing, auditing, and recording of tax returns and monthly operating reports, as well as the accounting for all deposits and payments for taxes, licenses, permits, and fees from the alcohol, tobacco, firearms, ammunition, and explosives industries.

Effective management of taxpayer accounts and proper receipt of tax returns and payments ensure accurate collections and reporting of all receivables. ATF's collection systems include work by the technical services staffs located in several districts and the Tax Processing Center in Cincinnati. The principal activities of these entities are office

audits of tax returns and reports, audits of claims, collection actions, review and approval of applications for permits, registration of plants and surety bonds, and processing and custody of official case files.

During FY 1997, ATF continued efforts to reduce the number of technical services offices, ultimately leading to a single National Revenue Center which will process all tax and permit matters nationwide from Cincinnati. The Atlanta office was closed in FY 1997 and much of the work from the remaining Philadelphia and San Francisco offices has already been transferred to Cincinnati. All functions of the Tax Processing Center will be absorbed into the National Revenue Center by the end of FY 1998.

In FY 1997, in the process of building the National Revenue Center, ATF implemented various technological improvements. Document imaging operations commenced, which will reduce the volume of paper files stored and improve accessibility of information. ATF also began fully automating the processing and analysis of industry operational reports. A full-time customer service representative position was also created to provide a channel for resolving problems and getting customer input and buy-in on the new changes taking place.

Document imaging of ATF tax and application forms, eventually leading to a "paperless office."



PROGRAM DISCUSSION & ANALYSIS (COLLECT REVENUE)

DIVERSION AND SMUGGLING

ATF is engaged in an ongoing endeavor to reduce the rising trend of illegal diversion of cigarettes and distilled spirits. Diversion involves products for both export and domestic consumption from a manufacturer to individuals acting as a broker or wholesaler. The product is diverted and sold illegally rather than shipping the product to the destination stated on required Federal records.

Criminal violations committed in these diversion schemes include violations of the Contraband Cigarette Act, Internal Revenue Code, Federal Alcohol Administration Act permit requirements, statutes relating to commerce with Native Americans, wire and/or mail fraud, money laundering, and conspiracy. ATF's goal is to achieve compliance with U.S. laws that will greatly reduce the illegal diversion of alcohol and tobacco products.

Diversion activities also defraud the United States of tax revenues. In this case, non-tax-paid cigarettes and distilled spirits are fraudulently claimed for export markets (for which there is no tax liability) when in fact they may be illegally diverted back into the U.S. domestic market for sale where taxes should apply.

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

ATF participates in joint investigations with the Internal Revenue Service, U.S. Customs Service, Revenue Canada, and state and local law enforcement. These investigations focus on significant tobacco- and distilled spirits-related criminal diversion activities in the United States and Canada. ATF is assisting the United States Attorney for the Northern District of New York in a northeast border strategy to stop the large-scale diversion of alcohol, tobacco, and firearms to Canada.

PROGRAM DISCUSSION & ANALYSIS (COLLECT REVENUE)

During FY 1997, ATF began entering information into an intelligence database for alcohol and tobacco diversion and contraband trafficking. In conjunction with the Federation of Tax Administrators, ATF established a toll-free number, 1-800-659-6242, to report large thefts and hijacked shipments of cigarettes. ATF and states use the asset forfeiture laws to combat diversion, and ATF is currently pursuing the enactment of an interstate trafficking law that will cover federal tax-paid liquor trafficked between states without payment of applicable state tax.

The seizure of alcohol beverages and tobacco products by ATF agents and inspectors in 1997 has resulted in over \$1.1 million being credited to the Treasury Forfeiture Fund. Through our efforts, several members of organized crime groups have been successfully prosecuted. Also, in FY 1997, ATF accepted \$405 thousand from distilleries and wholesalers to settle cases involving illegal activity. There are currently 114 diversion cases under investigation.

Illegal commerce also occurs when trafficking alcohol and tobacco from states with a low excise tax to states with a high excise tax. Involved in this illegal

trade are individuals who purchase large quantities of alcohol and tobacco products and then transport them to a jurisdiction with a higher excise tax for black market sales. As a result of this activity, ATF has experienced an unprecedented increase in alcohol and tobacco investigations. During FY 1997, ATF recommended 70 defendants for prosecution.

In an effort to combat the widespread problem of alcohol and tobacco products diverted from legal destinations to illegal destinations, ATF created the Diversion Branch. Its responsibilities are to coordinate the national Alcohol and Tobacco Diversion and Trafficking Enforcement programs; set policies; monitor investigations; provide assistance to field personnel; assist in determining targets; seek assistance from Chief Counsel, maintain liaisons with foreign governments; coordinate with FINCEN to track and identify financial transactions generated by illegal activity; and to work closely with other law enforcement agencies.

PROGRAM DISCUSSION & ANALYSIS (COLLECT REVENUE)

ALCOHOL TRADE ISSUES

The solidification of the European Union, the emergence of new Pacific Rim economies, and the movement of former Soviet States to market economies have had a major influence on the world economy. While this global economy provides new opportunities for U.S. producers of alcohol beverages, the changing political and economic landscape also produces discriminatory trade barriers that limit market access to U.S. manufacturers.

ATF assists U.S. businesses in overcoming trade barriers through direct intervention with foreign governments, and by supporting the United States Trade Representative in negotiations concerning the North American Free Trade Agreement, and with the European Union and in deliberations of the World Trade Organization. ATF also monitors and analyzes changes in foreign trade and political policies to anticipate and overcome potential barriers to U.S. interests. ATF represents the U.S. wine and brandy interests through membership and participation in the International Organization of Vine and Wine.

ATF assists the governments of developing world market economies to establish effective revenue collection models through training courses offered in cooperation with the Department of State.

USE ELECTRONIC COMMERCE

In FY 1997, many ATF application and other forms were made available to the public on the Internet, as well as information, facts and statistics about ATF and the regulated industry operations. Imaging operations were launched at the National Revenue Center to reduce storage and manual processing by ATF and to make statistical information more accessible to the public online.

In FY 1998, we anticipate commencing the imaging of label approval files. ATF will also explore the feasibility of Optical Character Recognition forms for certain returns. Streamlined processing of industry reports and returns paves the way for more utilization of electronic submissions by ATF's customers, resulting in a more efficient operation which reduces taxpayer burden.

PROGRAM DISCUSSION & ANALYSIS (PROTECT THE PUBLIC)

ATF's Protect the Public activity includes goals to complement enforcement with training and prevention strategies through law enforcement and industry partnerships, and reduce public safety risk and consumer deception on regulated commodities. This is accomplished through three major programs: Assure the Integrity of the Products, People, and Companies in the Marketplace; Ensure Compliance With Laws and Regulations Through Education, Inspection, and Investigation; and Inform the Public.

ASSURE THE INTEGRITY OF THE PRODUCTS, PEOPLE, AND COMPANIES IN THE MARKETPLACE

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

ASSURING ALCOHOL PRODUCT INTEGRITY

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

Each year, through the market basket sampling program, ATF collects thousands of alcohol products from the marketplace for several analyses by ATF laboratories. If any problems or unsafe conditions are found, they are investigated by ATF inspectors.

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

PROGRAM DISCUSSION & ANALYSIS (PROTECT THE PUBLIC)

CERTIFICATES OF LABEL APPROVAL

ATF is charged with protecting the consumer by preventing false or misleading claims on beverage labels and in advertising. The Bureau enforces the Government Health Warning Statement requirements, prohibits unbalanced and unsubstantiated health claims or misleading and deceptive claims, monitors industry advertising, and conducts investigations of suspected label fraud. With limited exceptions, ATF issues Certificates of Label Ap-

proval for every alcohol beverage offered for sale in the United States.

The Bureau remains strongly committed to customer service standards for label approval processing. At the end of FY 1996, ATF mailed approximately 1,400 customer satisfaction surveys to industry members. In FY 1997, the survey results were tabulated and the feedback provided will be used to streamline the efficiency of the label approval process.

CERTIFICATES OF LABEL APPROVAL

| | FY 1997 | FY 1996 |
|-------------------------------------|-----------|-----------|
| Approved labels on file | 1,613,118 | 1,561,615 |
| Applications for approval processed | 63,866 | 57,131 |

DENY PROHIBITED OR INELIGIBLE PERSONS ENTRY INTO THE REGULATED INDUSTRIES

Alcohol producers and wholesalers and other users of bulk alcohol are required to obtain a Federal permit. ATF reviews applications, bonds and other documents, checks on the applicants' background, and conducts field investigations to determine eligibility.

PROGRAM DISCUSSION & ANALYSIS (PROTECT THE PUBLIC)

The Gun Control Act of 1968 mandates that every manufacturer, importer, or dealer in firearms obtain a Federal firearms license. ATF conducts inspections of applicants for Federal firearms licenses. During these inspections, ATF inspectors explain the Federal firearms laws and regulations, and determine if the applicants are bona fide candidates for a license. Where inspection reveals conflicts with state laws and local ordinances, inspectors make referrals to the appropriate regulatory agency such as a zoning, occupancy, fire code, or law enforcement agency.

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

ENSURE COMPLIANCE WITH LAWS AND REGULATIONS THROUGH EDUCATION, INSPECTION, AND INVESTIGATION

Once a person or entity is licensed or obtains a permit to conduct a regulated business, ATF monitors and enforces compliance. Inspections of firearms licensees focus on assuring that firearms are properly accounted for. In the explosives industry, the emphasis is on safe and secure storage of explosives as well as accountability. Alcohol and tobacco inspections check on compliance with product and trade practice provisions. Education initiatives such as industry seminars are utilized in all industries.

PROGRAM DISCUSSION & ANALYSIS (PROTECT THE PUBLIC)

FEDERAL FIREARMS LICENSES AND INSPECTIONS

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

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

| FEDERAL FIREARMS LICENSES AND INSPECTIONS | | |
|--|---------|---------|
| | FY 1997 | FY 1996 |
| Federal Firearms Licensees (end of year) | 107,554 | 135,794 |
| New Applications | | |
| Received | 6,188 | 6,460 |
| Licenses issued | 5,946 | 6,691 |
| Renewal Applications | | |
| Received | 30,290 | 37,350 |
| Licenses issued | 27,560 | 30,525 |
| Application Inspections | | |
| On-premises inspections | 6,430 | 6,385 |
| Renewal telephone inspections | 16,363 | 21,795 |
| Compliance Inspections | | |
| On-premises inspections | 6,171 | 10,051 |
| Violations disclosed ¹ | 3,824 | 6,246 |

¹ Includes multiple violations resulting from inspection of a single licensee.

PROGRAM DISCUSSION & ANALYSIS (PROTECT THE PUBLIC)

EXPLOSIVES LICENSES/ PERMITS AND INSPECTIONS

ATF maintains a regular program of on-site inspections to ensure that explosives are stored in approved facilities, which are

Inspection of an explosives storage facility by an ATF inspector.



secure from theft and located at prescribed distances from inhabited buildings, railways, and roads. These inspections ensure that the licensees and permittees keep accurate records of the receipt and disposition of explosive material which are verified through actual inventories of explosives in storage. Unusual discrepancies in records are referred immediately to the appropriate office for further investigation. Inspectors also conduct “forward trace” inquiries on persons who purchase explosives without benefit of a license or permit for “same day use with no overnight storage.”

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

| EXPLOSIVES LICENSES AND INSPECTIONS | | |
|---|---------|---------|
| | FY 1997 | FY 1996 |
| Federal Explosives Licensees and Permittees (end of year) | 10,454 | 10,341 |
| New Applications | | |
| Received | 2,099 | 1,537 |
| Licenses/permits issued | 2,059 | 2,003 |
| Renewal Applications | | |
| Received | 3,524 | 2,754 |
| Licenses/permits issued | 3,612 | 2,697 |
| Application Inspections | | |
| On-premises inspections | 1,191 | 957 |
| Compliance Inspections | | |
| On-premises inspections | 6,733 | 2,813 |
| Violations disclosed | 2,115 | 1,214 |
| Public safety issues detected and resolved as a result of inspection | 677 | — |

PROGRAM DISCUSSION & ANALYSIS (PROTECT THE PUBLIC)

ALCOHOL INDUSTRY INSPECTIONS

ATF inspects alcohol plants to assure that products are manufactured in keeping with approved formulas and processes, which assure that the actual product fulfills labeling and advertising claims. ATF investigates anti-competitive business practices between alcohol beverage suppliers and retailers to preserve the retailers' economic independence. The Bureau also investigates consumer complaints of tainted or adulterated alcohol beverages.

INDUSTRY SEMINARS

ATF conducts seminars for firearms and explosives permittees and licensees, providing current information on the laws and regulations pertaining to these commodities. Through these seminars, ATF has fostered partnerships with firearms and explosive industry members to prevent tragedies stemming from the illegal use of firearms and explosives. Seminar attendees include industry officials, licensees, permittees, and state and local law enforcement officials.

ATF also conducts seminars for alcohol and tobacco permittees. These seminars focus on current

market trends, compliance concerns, changes in laws, regulations or Bureau policies, and industry-raised issues. In partnership with the states, the seminars are conducted jointly with the state alcohol beverage control agencies to provide the total compliance enforcement picture

| ALCOHOL AND TOBACCO PERMITS AND INSPECTIONS | | |
|--|-------------|-------------|
| | FY 1997 | FY 1996 |
| Alcohol Permittees (beginning of year) | 27,256 | 26,795 |
| Alcohol Inspections | | |
| Application inspections | 1,245 | 1,314 |
| Compliance inspections* | 1,546 | 1,902 |
| Violations disclosed | 7,041 | 1,169 |
| Additional taxes assessed | \$1,317,077 | \$4,253,000 |
| *Note: Product integrity, market integrity, and tax compliance inspections. | | |
| Tobacco Permittees (beginning of year) | 365 | 331 |
| Tobacco Inspections | | |
| Application inspections | 91 | 72 |
| Compliance inspections | 142 | 196 |
| Violations disclosed | 90 | 68 |
| Additional taxes assessed | \$82,042 | \$4,207,000 |
| Note: Additional taxes are assessed when ATF inspectors identify errors, under reporting, or conditions such as inventory shortages that create a tax liability. Large percentage changes in these totals occur from year to year. In many instances a small number of large cases have a dramatic effect on totals. In FY 1996, there were a few unusual adjustments on claims, distilled spirits and tobacco plants. | | |

| INDUSTRY SEMINARS | | |
|-------------------|---------|---------|
| | FY 1997 | FY 1996 |
| Firearms | 88 | 104 |
| Explosives | 26 | 26 |
| Alcohol | 20 | 33 |

PROGRAM DISCUSSION & ANALYSIS (PROTECT THE PUBLIC)

to those in attendance. In FY 1997, ATF conducted seven seminars reaching approximately 500 attendees. These seminars will continue throughout 1998 and the future.

NATIONAL FIREARMS ACT

The National Firearms Act requires that certain firearms be registered in what is known as the National Firearms Registration and Transfer Record. The firearms required to be registered are machine guns, silencers, short-barreled rifles, destructive

devices, and certain concealable weapons classified as “any other weapons.” ATF processes all applications to make, export, transfer, transport, and register National Firearms Act firearms, as well as notices of the National Firearms Act firearms manufactured or imported.

ATF’s firearms technology experts provide expert technical support to ATF in all matters relating to the technical aspects of firearms and their classification under Federal laws. Most workload is devoted to supporting law enforcement investigations and programs. The remaining operations focus on technical support to regulatory operations, Chief Counsel, Office of Liaison and Public Information, other Federal agencies, state and local law enforcement, the firearms industry, and the general public.

FIREARMS AND AMMUNITION IMPORTATION

ATF regulates the importation of firearms, ammunition, and other defense-related articles through the issuance of import permits.

ATF maintains close liaison with the Department of State to ensure that the permits it issues do not conflict with the foreign policy

NATIONAL FIREARMS ACT WEAPONS ACTIVITY

| | FY 1997 | FY 1996 |
|---------------------|---------|---------|
| Firearms Registered | 896,459 | 823,459 |
| Documents Processed | 244,641 | 242,054 |
| Record Searches* | 4,887 | 5,744 |

* Of the searches, 89% were associated with criminal investigations, while the remaining 11% were associated with firearms inspections.

FIREARMS AND AMMUNITION IMPORTATIONS

| | FY 1997 | FY 1996 |
|---------------------------------|---------|---------|
| Importer Registrations Received | 287 | 328 |
| Permit Applications Received | 10,535 | 11,527 |

PROGRAM DISCUSSION & ANALYSIS (PROTECT THE PUBLIC)

and national security interests of the United States. At the direction of the Department of State, ATF lifted the arms trade restrictions imposed against the Russian Federation. Additionally, the

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

INFORM THE PUBLIC

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

INDUSTRY AND STATE PARTNERSHIPS

The Industry and State Partnerships Program focuses on working with the industry to help educate the public on ATF's regulated commodities.

The Bureau continues to expand partnerships with regulated industries and state governments. For example, the Office of Science and Technology initiated the Partnership Formula Approval Process, which was instituted for all beverage and flavor manufacturers after a successful trial program. This new business process was a result of a joint effort of ATF, the alcohol beverage industry, and the flavor industry. The result of this collective effort was a dramatic reduction in the average approval time

required for flavored beverage alcohol products from eight weeks to less than two weeks.

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

ATF furthered its relationship with industry associations such as the Institute of Manufacturers of Explosives and the American Pyrotechnic Association to develop an Advanced Explosives Training class for all ATF inspectors. The Institute of Manufacturers of Explosives and the

PROGRAM DISCUSSION & ANALYSIS (PROTECT THE PUBLIC)

American Pyrotechnic Association have been instrumental in providing instruction to inspectors at ATF's training sessions. All classes are conducted at Fort McClellan, Alabama. Since June 1997, ATF has trained approximately 71 inspectors. More training classes are scheduled for calendar year 1998.

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

garding explosives and the coal mining industry.

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

Because of the nature of Federal/state alcohol regulation rooted in the Twenty-First Amendment, ATF works closely with counterpart state liquor control and taxation agencies and industry groups. Current cooperative efforts focus on making ATF a center for industry-related information by making a wide range of data, including pictures of approved alcohol beverage labels, available through automated systems. The goal is to enable states to decrease parallel requirements and systems, to provide more efficient and timely access to data, and to reduce delays to industry in marketing new products. ATF continues to benefit from the cooperation of many state agencies in notifying retail liquor dealers of the liability for payment of Special Occupational Tax. Special Occupa-

PROGRAM DISCUSSION & ANALYSIS (PROTECT THE PUBLIC)

tional Tax collections totaled \$107 million for FY 1997.

The 60-year-old Pittman-Robertson Act levies a 10 percent excise tax on handgun sales and long guns and ammunition. In FY 1997, ATF collaborated with the Department of the Interior to distribute \$149 million from this tax to states for wildlife restoration projects.

In FY 1996, Congress passed the Antiterrorism and Effective Death Penalty Act. Working with the international community, industry members and other affected groups, ATF is conducting a study to explore the feasibility of placing tracer elements in explosives materials for the purpose of detection and identification. At the conclusion of the study, the group will recommend to Congress the future options available that will make the illegal use of

explosives materials more difficult. One option already implemented is a partnership between the fertilizer industry and ATF, incorporating voluntary reporting of suspicious purchasers of ammonium nitrate to ATF. A preliminary report was issued in FY 1997 and is under review.

PROGRAM DISCUSSION & ANALYSIS (PROGRAM ADMINISTRATION AND SUPPORT)

TRAINING

The Office of Training and Professional Development began its third year with solidly established operating procedures. The focus continues to be the training of ATF personnel, state and local officers, and the international law enforcement community. ATF is committed to maintaining the highest level of expertise for its employees in arson, explosives, firearms and revenue collection. To ensure this commitment, ATF enhanced and expanded its specialized training for these programs. In FY 1997, the Bureau's expenditures for specialized training activities increased substantially over FY 1996.

During FY 1997, Office of Training and Professional Development took on the tremendous task of identifying the common training needs of ATF's employees and developing basic new employee training to meet these needs. A new employee entering on duty with ATF, whether an agent, inspector, auditor, attorney, specialist, or scientist will jointly attend a two-week core training course at Bureau headquarters. This "New Professional Training" course will provide the new employee with an overview of ATF—its mission, organization, and strategic plan. Each employee will learn what is expected of an ATF employee and will learn what role the various occupations play in assisting ATF in accomplishing its mission.

Over the past year, Office of Training and Professional Development has provided leadership for developing partnerships with universities, various industries, the scientific and technical community, and cooperative

agreements with the Bureau's extended enterprise to provide for a sound and safer America.

These organizations include the Department of State, Federal Bureau of Investigation, Central Intelligence Agency, International Association of Chiefs of Police Incorporated, the Fraternal Order of Police, University of Maryland, University of Nebraska, and the Educational Testing Service.

In support of new technology, a comprehensive training program for systems administrators and other information systems professionals was developed. Training on new software applications was provided to all employees as installation occurred.

Additional accomplishments include:

- provided training approximately 15,893 times to ATF employees that included mandatory training requirements, technical, occupational, leadership and employee career programs;

PROGRAM DISCUSSION & ANALYSIS

(PROGRAM ADMINISTRATION AND SUPPORT)

- provided training to approximately 34,824 other Federal, state, local, international law enforcement officers, industry personnel, civilians and civic organizations; topics included arson investigation, explosives identification and regulation, firearms trafficking/identification, gangs, post-blast investigations, and advanced interviewing techniques;
- began a cooperative joint effort with the Federal Aviation Administration and developed four training programs targeted to the aviation security industry;
- trained 71 inspectors in advanced explosives for the first time;
- managed the certification of Certified Fire Investigators and Certified Explosives Specialists to contribute effectively to arson and explosives investigations;
- initiated the Interactive Fire Investigation CD ROM training program with other Federal agencies and private insurance industry personnel;
- provided explosives, basic firearms identification, gangs/firearms trafficking, and alcohol/tobacco licensing and taxation training to approximately 1,100 international law enforcement officers from 20 foreign countries through State Department initiatives;
- developed the training protocols and organizational development plan for ATF's Critical Incident Command System;
- developed an ATF core curriculum to be introduced in every state police academy nationwide; with objectives to describe ATF's history, mission, and jurisdiction; and identify ATF's unique and valuable assets to support other agencies in investigative matters;
- increased the number of firearms trafficking schools conducted, and included state and local officers in these schools; developed an educational partnership with Canadian law enforcement agencies to deliver a pilot firearms trafficking school for ATF and Canadian officials; and
- continued to partner with the Office of Science and Technology, University of Maryland, and National Fire Academy, to build a Fire Investigation and Research Center.

Office of Training and Professional Development conducts computer field-based training.



PROGRAM DISCUSSION & ANALYSIS (PROGRAM ADMINISTRATION AND SUPPORT)

SCIENTIFIC/INVESTIGATIVE SUPPORT

The Office of Assistant Director (Science and Technology)/Chief Information Officer plays a key role in the Bureau's overall enforcement functions.

INFORMATION SERVICES

The Information Services Division is responsible for the development, implementation, and maintenance of all Bureau information resources; including all aspects of data processing, communications, office automation, and the Internet.

In FY 1997, ATF deployed 1,144 desktop and laptop computers during the first phase of Enterprise Systems Architecture, a multi-year initiative to upgrade its information architecture to provide a modern electronic data processing platform and enhanced technology base for all future development. The Bureau awarded an agreement to Unisys Corporation to provide ATF with equipment and services; including Dell Computer Corporation, Micron Electronics Incorporated laptops, Hewlett-Packard Company printers, servers, training, help desk and other maintenance support as a part of the Enterprise Systems Architecture. This contract is believed to be a government first; i.e., a governmental entity leasing equipment and relying on contractors to manage

it. Enterprise Systems Architecture, a significant investment, is an integral part of ATF's strategic plan that is essential to meet the challenges of Year 2000 Date Compliance Project, virus protection, and business needs over the next three-to-five years.

Major components of the Enterprise System Architecture include:

- establishment of a modern backbone communications network capable of transmitting and sharing data simultaneously within and among organizational units via local, metropolitan, and wide area networks;
- deployment of a mix of desktop and notebook personal computers and commensurate training for ATF's entire user community;
- standardization of a software suite consisting of operating systems, telecommunications, database management systems, and applications development tools; and
- upgrade of the mainframe computer environment to add significant functionality.

PROGRAM DISCUSSION & ANALYSIS (PROGRAM ADMINISTRATION AND SUPPORT)

ATF's Internet site, originally designed in FY 1996, went through several evolutionary phases during FY 1997. The Internet site now contains information on the Youth Crime Gun Interdiction Initiative; First Year Report to the President from the National Church Arson Task Force; Brady Law; Domestic Violence; Federal Firearms Regulations Reference Guide; pictures and descriptions of ATF's most wanted persons; jobs; Freedom of Information Act requests; press releases and industry news; and a list of toll-free telephone numbers to ATF's hotlines.

The web site has been positively received by the news media, the public, industry members, and interest groups. The web site averages approximately 700 visits per day and the average visitor downloads five pages. ATF's web site is rapidly becoming the communication vehicle for obtaining information on the Bureau's enforcement activities.

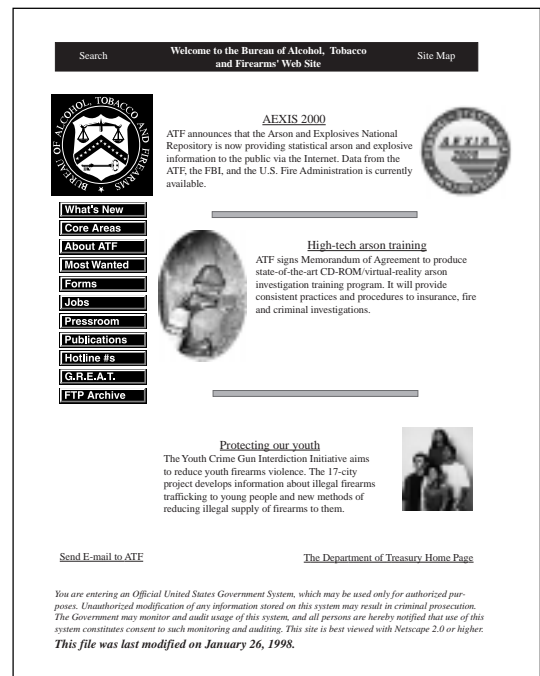
The Bureau's Intranet site was developed in FY 1997. It is becoming the internal communication vehicle for employees to obtain information on ATF activities, database applications, publications, and directives.

LABORATORY SERVICES

ATF laboratories specialize in examining bombing, arson, and firearms evidence. Control measures are maintained to ensure the

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

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



PROGRAM DISCUSSION & ANALYSIS

(PROGRAM ADMINISTRATION AND SUPPORT)

AUDIT SERVICES

The Bureau's Audit Services Division provides another important investigative tool for solving financially motivated crimes such as arson and the illegal diversion of alcohol and tobacco products. Auditors determine the financial condition of the business and the suspect, develop investigative

leads and criminal charges through examinations of financial records, participate in conducting interviews, assist the case special agent in determining, for example, if an insurance claim is fraudulent, and ultimately, provide expert witness testimony at trial.

INSPECTION SUPPORT

The Bureau maintains an Office of Inspection with primary responsibilities to plan, direct, and coordinate inspection and internal affairs activities. It appraises the effectiveness of operations, assesses the quality of management and supervision, and determines adherence to organizational policies, regulations, and procedures. The Office of Inspection is also responsible for conducting employee integrity investigations, either criminal or administrative, as well as other sensitive investigations assigned by the ATF Director.

SPECIAL OPERATIONS SUPPORT

The Special Operations Division is assigned several unique responsibilities that support specific Bureau mission objectives. These objectives include: polygraph examinations; airborne operations; undercover investigations; coordination of mission support to the U.S. Secret Service and Department of State; coordination of gang enforcement projects and programs; and management of the witness protection program.

In FY 1997, the Bureau established the Critical Incident Management Branch function to manage and coordinate ATF's preparation and readiness for critical incidents, major/complex investigations, and significant operations. In addition, the

function is responsible for coordinating the Special Response Team, Crisis Negotiations and ATF's Operational Medical Support. During FY 1997, a change from divisional to regional Special Response Teams was implemented. The Special Response

PROGRAM DISCUSSION & ANALYSIS

(PROGRAM ADMINISTRATION AND SUPPORT)

Teams conducted 174 operations and all of the activations ended without incident.

During FY 1997, Polygraph Program Examiners conducted approximately 400 examinations of suspects, informants, and witnesses. Conclusive opinions were rendered in approximately 76 percent of those tested and most agencies average in the 60 percent range. Polygraph Program examiners were extremely effective in obtaining admissions and confessions from examinees determined to be deceptive in their answers.

The National Communications Center provides bureauwide tactical communications and record communications support and access to various law enforcement information databases. During FY 1997, the National Communications Center received and assisted in 1,547 hotline calls and 2,400 Federal Firearms Licensee calls. The National Communication Center's enforcement operations provided operational support to critical incidents at the Sandy Springs Professional Building and the Otherside Lounge bombings in Atlanta, Georgia.

STRATEGIC INTELLIGENCE SUPPORT

Strategic Intelligence has been identified as a critical tool for ATF to collect, evaluate, analyze, and disseminate information which supports the mission of ATF. This function also provides coordination and oversight of the Bureau's field intelligence officers and analysts who support the enforcement efforts of ATF's field agents and inspectors.

Other responsibilities include: monitoring sensitive/significant investigations conducted by field agents; providing analytical support and coordination for church fire investigations; serving as the Bureau's liaison office in matters involving foreign law enforcement agencies; handling of requests for intelligence information and Interpol; and coordinating ATF officials' mission related foreign travel.

During FY 1997, the Intelligence function provided analytical support to the Bureau and its partners in law enforcement in the following categories:

- conducted 1,270 intelligence research and analysis requests;
- conducted 164,649 telephone toll analyses;

PROGRAM DISCUSSION & ANALYSIS

(PROGRAM ADMINISTRATION AND SUPPORT)

- conducted 10,646 subscription service queries;
- conducted 3,093 intelligence database queries;
- scanned 40,000 documents in ATF's electronic document imaging/retrieval system;
- provided training to ATF and other law enforcement personnel in topical areas of expertise specific to ATF intelligence;
- activated special response support to the Atlanta bombing investigations and the Kehoe brothers national manhunt investigations which included the collection and analysis of 1,212 and 80 investigative leads respectively.

MANAGEMENT ACTIVITIES

Management support functions are grouped into five primary areas: management analysis, financial management, personnel management, administrative programs, and procurement. The Office of Assistant Director (Management)/Chief Financial Officer provides leadership, coordination, and direction and works in partnership with other senior Bureau officials in these and other areas to support the Bureau's mission.

Recent management support accomplishments include:

- the collocation of 65 of 80 criminal and regulatory field offices; reducing overall space needs, increasing the sharing of resources, and reducing future rental costs;
- continued aggressive efforts to maintain an unqualified opinion on financial statements and to successfully address the Office of Inspector General FY 1996 reportable conditions;
- continued refinement of the Bureau's budget activity structure that has resulted in a stronger and clearer linkage to the Bureau's strategic plan;
- assistance with the development of Bureau-wide performance measures in accordance with requirements contained in the Chief Financial Officers Act of 1990 and Government Performance and Results Act of 1993;

PROGRAM DISCUSSION & ANALYSIS

(PROGRAM ADMINISTRATION AND SUPPORT)

- renewal of an agreement with the Department of Defense on the automated Injury and Unemployment Compensation Tracking System, which will continue to yield new efficiencies and cost savings for the Bureau;
- completion of a business case for future personnel system needs, in part leading to the purchase of commercial off the shelf software by the Department of the Treasury;
- progress with the ATF headquarters building relocation plan and site selections for the National Laboratory Center and Fire Investigation, Research and Education Center facility;
- significant improvements to ATF physical security in the wake of recent national criminal acts against Government facilities;
- a record year in both the number of contract actions completed and dollars saved;
- preliminary contractual advice on implementing a cost accounting system;
- maintained a 1.9 percent delinquency rate for prompt payment to vendors;
- implementation plan for closing field imprest funds; and
- effective implementation of systems conversions to support Headquarters restructuring.

INTO THE FUTURE

ATF's vision in approaching the twenty-first century is "Working for a Sound and Safer America Through Innovation and Partnerships."

To support this long-term effort, the Bureau will work to provide the highest levels of expertise, leadership, and knowledge in its mission areas. The Bureau will continue to support and develop collaborative partnerships with regulated industry members, other Federal agencies, the international community, and state and local governments.

ATF's goal is to concentrate its unique Federal enforcement capabilities to best serve its customers and not duplicate the work of others. By accomplishing this goal, ATF will become more effective, more efficient, and more sensitive to community and customer needs.

PROGRAM DISCUSSION & ANALYSIS (PROGRAM ADMINISTRATION AND SUPPORT)

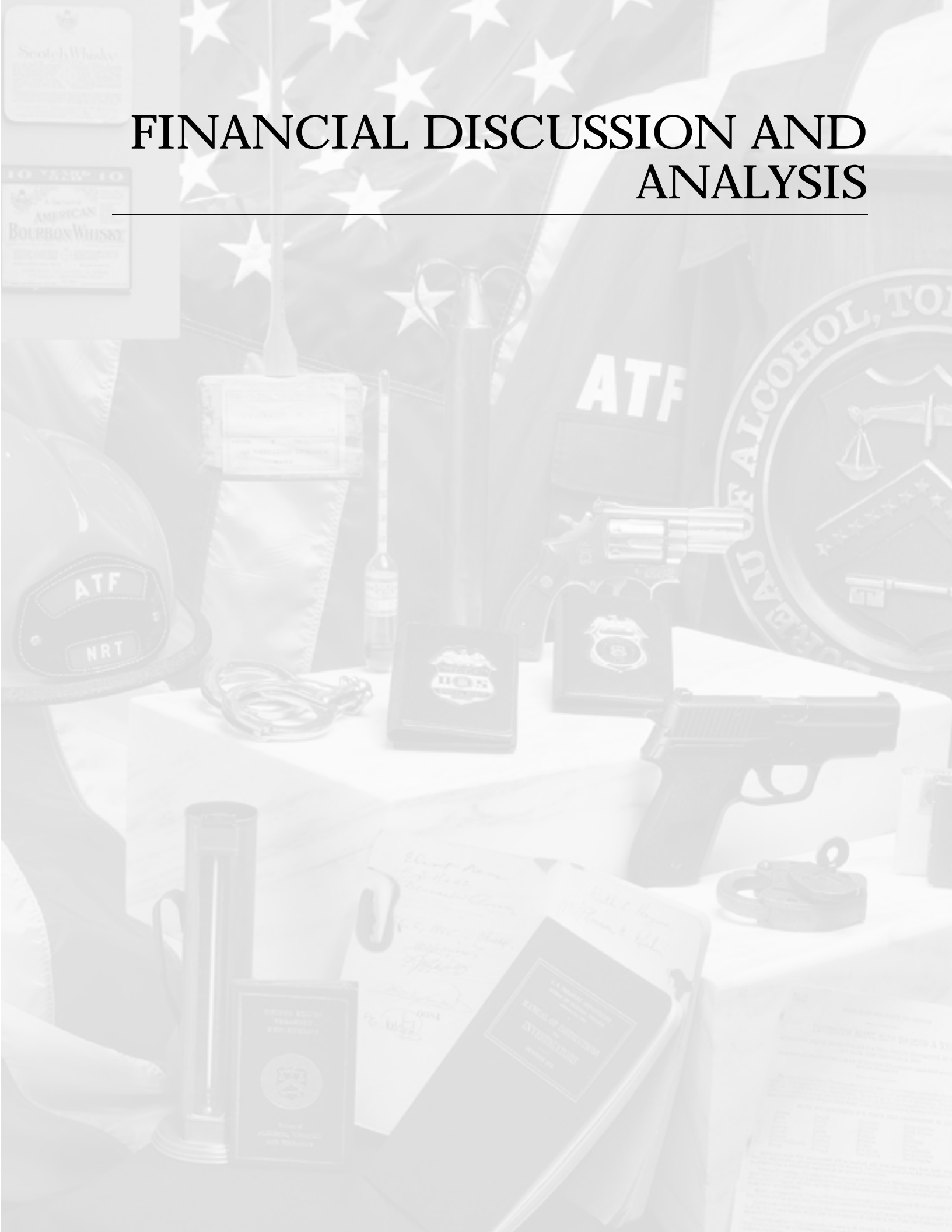
ATF has identified certain key priorities for meeting the goals in the vision and mission statements: developing a state-of-the-art technology infrastructure and effectively managing and sharing unique ATF intelligence and information assets. The Bureau will continue minimizing regulatory burden while promoting voluntary compliance with the laws and regulations.

ATF's goals also include the fair and effective collection of excise and special occupational taxes, and licensing and permit fees. To this end—simultaneously with the consolidation and streamlining of operations—the Bureau is overhauling its technical services and tax processing functions to meet the demands of the twenty-first century. ATF will, to the maximum extent feasible, implement a paperless tax and permit monitoring environment. Upgraded computer capability will enhance analysis so that the regulatory and paperwork burden on industry is reduced. Partnership opportunities with state counterparts will be enhanced as statistical and technical regulatory data increasingly become available on-line.

ATF will continue its strong focus on industry and law enforcement training through seminars for industry members in firearms, arson and explosives, alcohol, and tobacco. Seminars for Federal, state and local law enforcement, and international agencies will focus on explosives identification, post-blast explosives, and complex firearms trafficking investigations. The Bureau remains the foremost training provider for arson investigations to the insurance industry, state and local law enforcement, and Federal prosecutors. As ATF is given new legislative authorities, it will work to implement them in partnership with others.

President John F. Kennedy said “change is the law of life. And those who look only to the past or present are certain to miss the future.” In this light, ATF will continue to improve and expand its expertise—with an eye toward the future. This includes an ongoing assessment of the best organizational structure, staffing and processes for accomplishing the Bureau's mission and for providing full service to the American public.

FINANCIAL DISCUSSION AND ANALYSIS



FINANCIAL DISCUSSION AND ANALYSIS

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

MANAGEMENT INITIATIVES

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

CFO STEERING COMMITTEE AND PROCESS TEAMS

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

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

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

FINANCIAL DISCUSSION AND ANALYSIS

COST ACCOUNTING AND PERFORMANCE MEASUREMENT

ATF formed a Bureau-wide team to gather requirements for a cost/performance measurement system. From identification of preliminary requirements for performance measurements, a new budget activity and program structure were developed to present the FY 1998 budget. The new framework links strategic planning, budgeting and program planning into a single integrated package, permitting the Bureau to improve formulation and execution of its programs.

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

STRATEGIC MANAGEMENT TEAM

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

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

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

Notable accomplishments for FY 1997:

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

FINANCIAL DISCUSSION AND ANALYSIS

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

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

FINANCIAL MANAGEMENT AND TRAINING

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

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

The Monthly Accountability Plan (MAP), continued in FY 1997, is a reporting mechanism used to monitor critical key activities that must be accomplished in order to achieve an efficient and effective integrated financial management process. Included in the MAP are data on key operating duties and indicators, such as account reconciliations, system assurance, financial reporting, and workload statistics.

FINANCIAL DISCUSSION AND ANALYSIS

FINANCIAL SYSTEMS

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

The development of an Integrated Collections System (ICS) will provide the foundation for the Bureau's revenue management function. The ICS integrates numerous stand-alone tax and fee databases to provide comprehensive revenue management information for Bureau program managers. Completion of the ICS will reduce the risk of revenue loss, eliminate duplication found in multiple databases, and increase ATF's tax return and claim verification efficiency.

FINANCIAL MANAGEMENT INFORMATION SYSTEM

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

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

FMIS FY 1997 accomplishments:

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

FINANCIAL DISCUSSION AND ANALYSIS

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

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

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

FMIS plans:

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

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



FINANCIAL DISCUSSION AND ANALYSIS

INTEGRATED COLLECTIONS SYSTEM

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

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

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

FY 1997 accomplishments:

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

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

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

FINANCIAL DISCUSSION AND ANALYSIS

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

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

FY 1997 accomplishments:

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

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

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

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

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

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

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

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

FINANCIAL DISCUSSION AND ANALYSIS

FINANCIAL PERFORMANCE

PROMPT PAYMENT

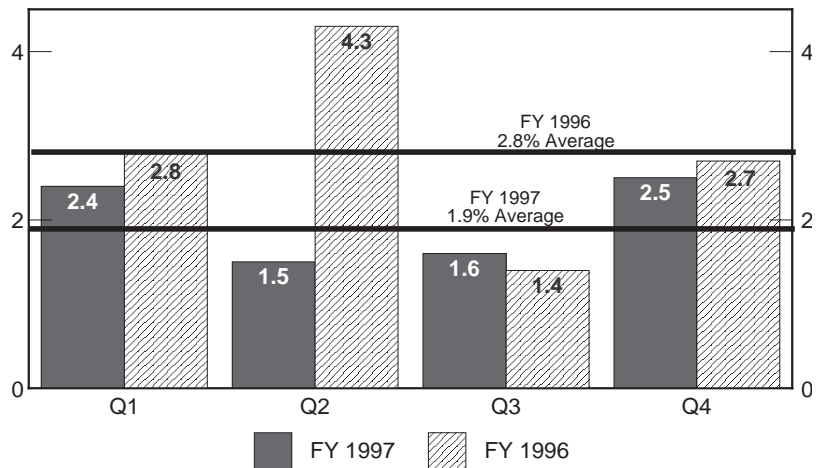
The Prompt Payment Act requires the Federal Government to make vendor payments timely, with interest penalties for late payments and discounts for meeting approved accelerated payments. ATF implemented systems enhancements and edits to ensure compliance with the Prompt Payment Act, which included controls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

CASH MANAGEMENT

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

PROMPT PAY QUARTERLY COMPARISON

Frequency of Invoices with Paid Interest Penalties



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

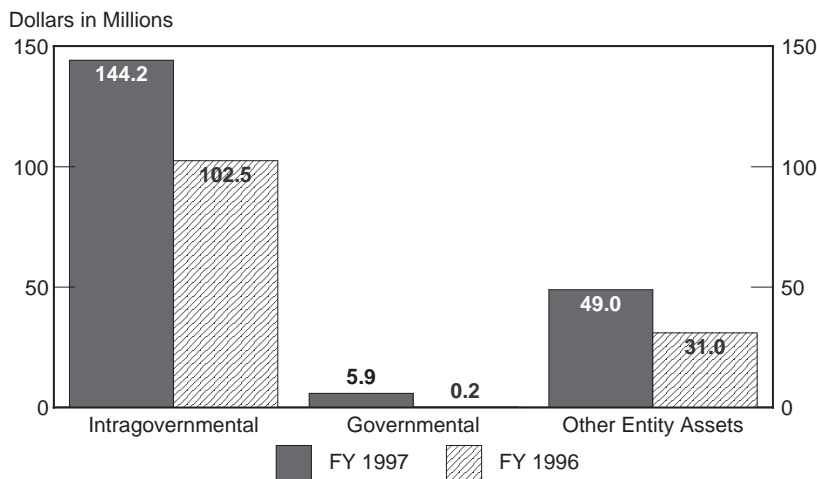
The Bureau uses the automated FEDWIRE Deposit System for semi-monthly collection of alcohol and tobacco excise tax payments by taxpayers who pay more than \$5 million per calendar year. ATF also maintains a

FINANCIAL DISCUSSION AND ANALYSIS

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

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

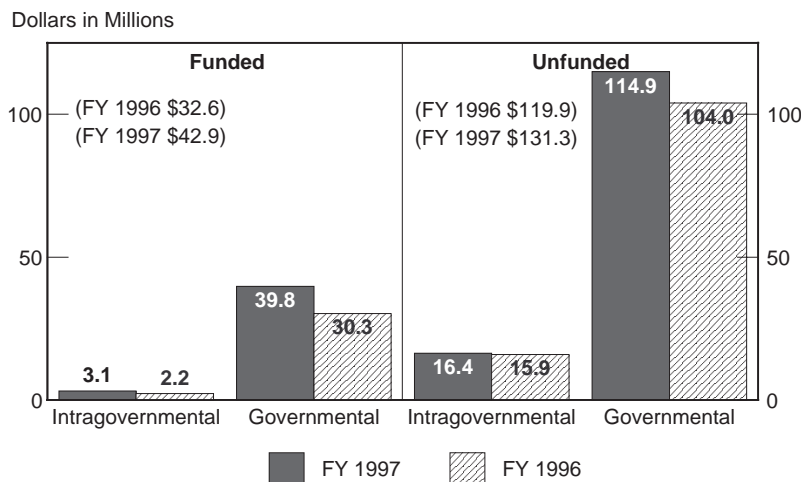
ENTITY ASSETS



ENTITY ASSETS AND LIABILITIES

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

ENTITY LIABILITIES



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

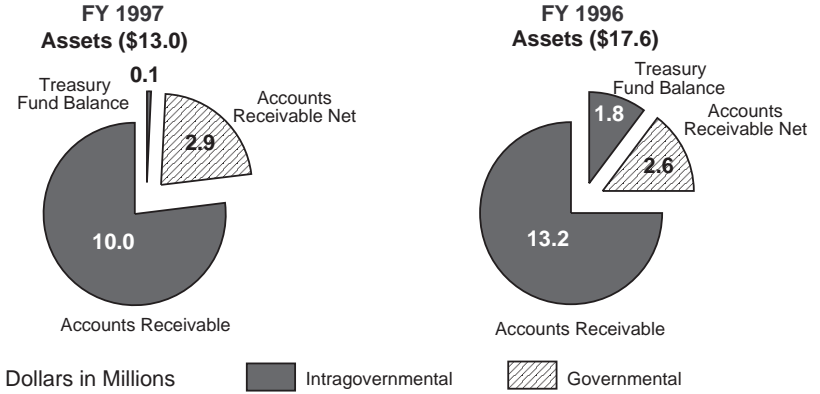
FINANCIAL DISCUSSION AND ANALYSIS

NON-ENTITY ASSETS AND LIABILITIES

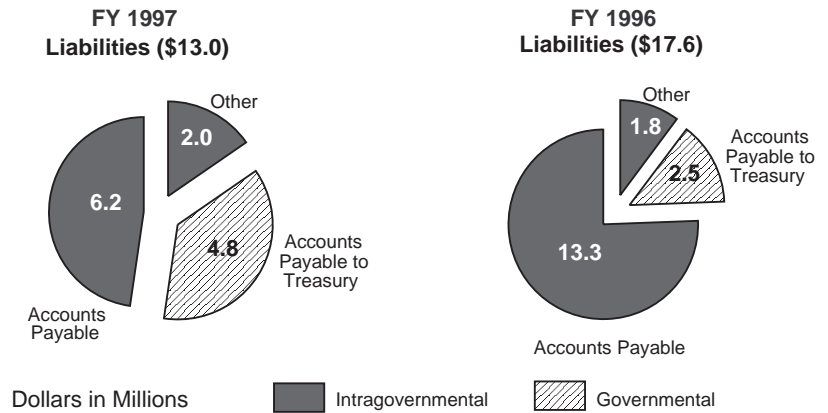
Non-entity assets primarily relate to the Bureau's revenue collection function for the Federal Government. Components of intragovernmental non-entity assets at September 30, 1997 and 1996, include fund balance with Treasury and accounts receivable due to ATF from the Treasury to refund certain excise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

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

NON-ENTITY ASSETS



NON-ENTITY LIABILITIES



FINANCIAL DISCUSSION AND ANALYSIS

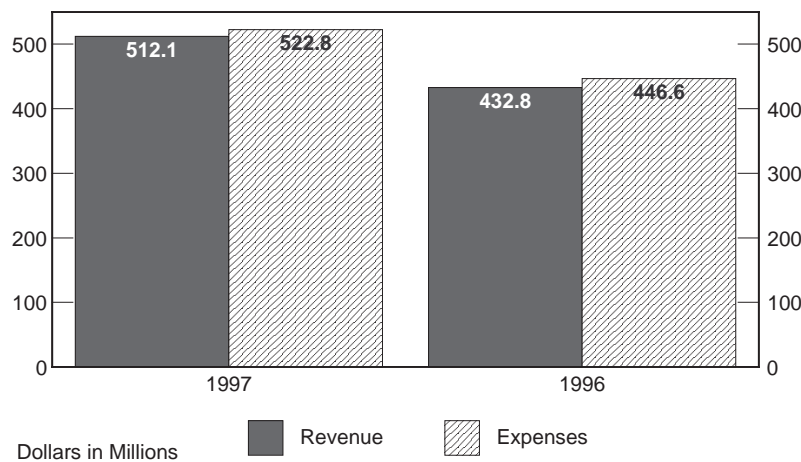
ENTITY REVENUE AND EXPENSES

Entity revenue represents the Bureau's appropriations and

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

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

ENTITY REVENUE AND EXPENSES



REVENUE MANAGEMENT

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

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

FINANCIAL DISCUSSION AND ANALYSIS

REVENUE SOURCES

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

Alcohol and Tobacco Excise Tax

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

Firearms and Ammunition Tax

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

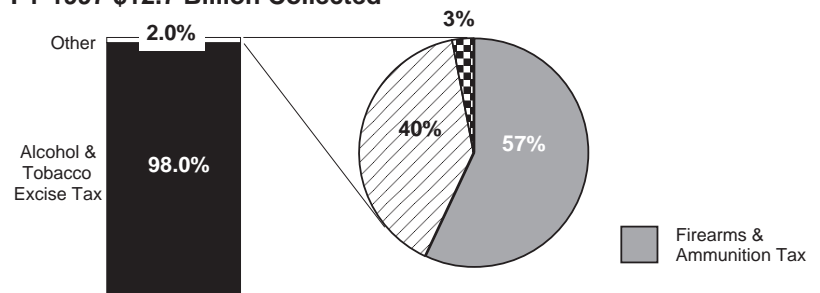
excise taxes be transferred to the Interior Department's Federal Aid to Wildlife Restoration Fund to support their mission.

Special Occupational Tax

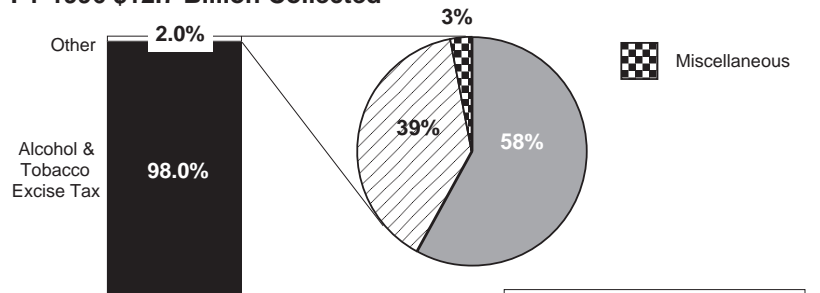
ATF collects the Special Occupational Tax imposed by Section 5121 of the Internal Revenue Code on certain alcohol, tobacco and firearms businesses. This tax is due annually on July 1, and is applicable to producers, wholesalers, and retailers of alcohol beverages, manufacturers of tobacco products, and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

TAX AND FEE REVENUE

FY 1997 \$12.7 Billion Collected



FY 1996 \$12.7 Billion Collected



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

Gross Revenue Before Refund Disbursements

FINANCIAL DISCUSSION AND ANALYSIS

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

Import Fees Firearms/Explosives Fees

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

National Firearms Act Making and Transfer Tax

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

Transfer Taxes during FYs 1997 and 1996, respectively.

Offers-in-Compromise

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

Floor Stocks Tax

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

FINANCIAL DISCUSSION AND ANALYSIS

TAX AND FEE REFUNDS

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

Manufacturers of Non-Beverage Products

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

Cover Over Payments to Puerto Rico and the Virgin Islands

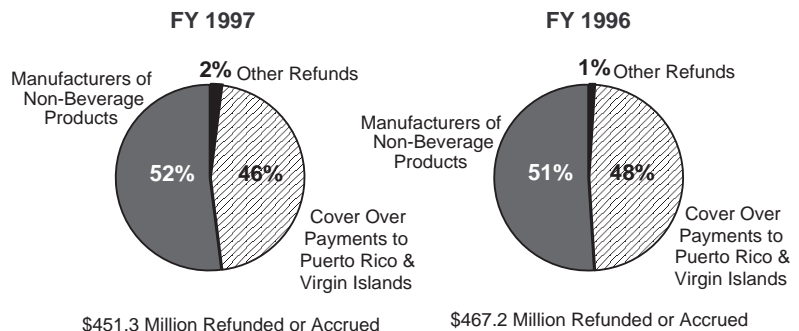
The Internal Revenue Code of 1986, as amended (26 U.S.C. 5314 and 7652) provides that taxes collected on articles produced in Puerto Rico and the Virgin Islands transported to the United States (less the estimated amount necessary for payment of refunds and drawbacks) shall be covered over (paid to)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

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

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

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

REVENUE TAX AND FEE REFUNDS



FINANCIAL DISCUSSION AND ANALYSIS

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

Other Refunds

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

FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT HIGHLIGHTS

The Bureau centrally manages the Federal Managers' Financial Integrity Act (FMFIA) program, with oversight responsibilities assigned to the CFO. However, each executive office maintains responsibility for a cost-effective system of controls to provide reasonable assurance that Government resources are protected against fraud, waste, abuse, mismanagement, or misappropriation. The Executive Staff's responsibilities include ensuring that new and existing programs and administrative support activities are managed efficiently and effectively. All Executive Staff members and managers are accountable for safeguarding resources and are also evaluated as financial managers.

POLICIES AND PROCEDURES

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

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

Strengthen Controls Over Personnel/Payroll Processing

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

FINANCIAL DISCUSSION AND ANALYSIS

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

Improve Procedures to Record Property and Equipment Disposals Timely

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

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

Strengthen Controls Over the Federal Excise Tax Database

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

FINANCIAL DISCUSSION AND ANALYSIS

Consider the Rotation of Inspectors in the Inspection Targeting Program

Status and Accomplishments:

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

Improve Controls Over Accountability for Seized Property

Status and Accomplishments:

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

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

Enhance Controls Over the Information Security Management Function

Status and Accomplishments:

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

Improve Effectiveness of Access Control Software

Status and Accomplishments:

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

FINANCIAL DISCUSSION AND ANALYSIS

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

Implement Adequate Separation of Duties

Status and Accomplishments:

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

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

Evaluate Telecommunications Security Risk

Status and Accomplishments:

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

1997 FMFIA STATUS

ATF's FY 1997 annual statement of assurance indicated that the Bureau could reasonably assure that:

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

FINANCIAL DISCUSSION AND ANALYSIS

The reasonable assurance was based on the Bureau's continued effort to improve its systems of management controls and aggressive steps to improve automated systems.

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

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

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

FINANCIAL DISCUSSION AND ANALYSIS

MANAGEMENT RESPONSIBILITIES

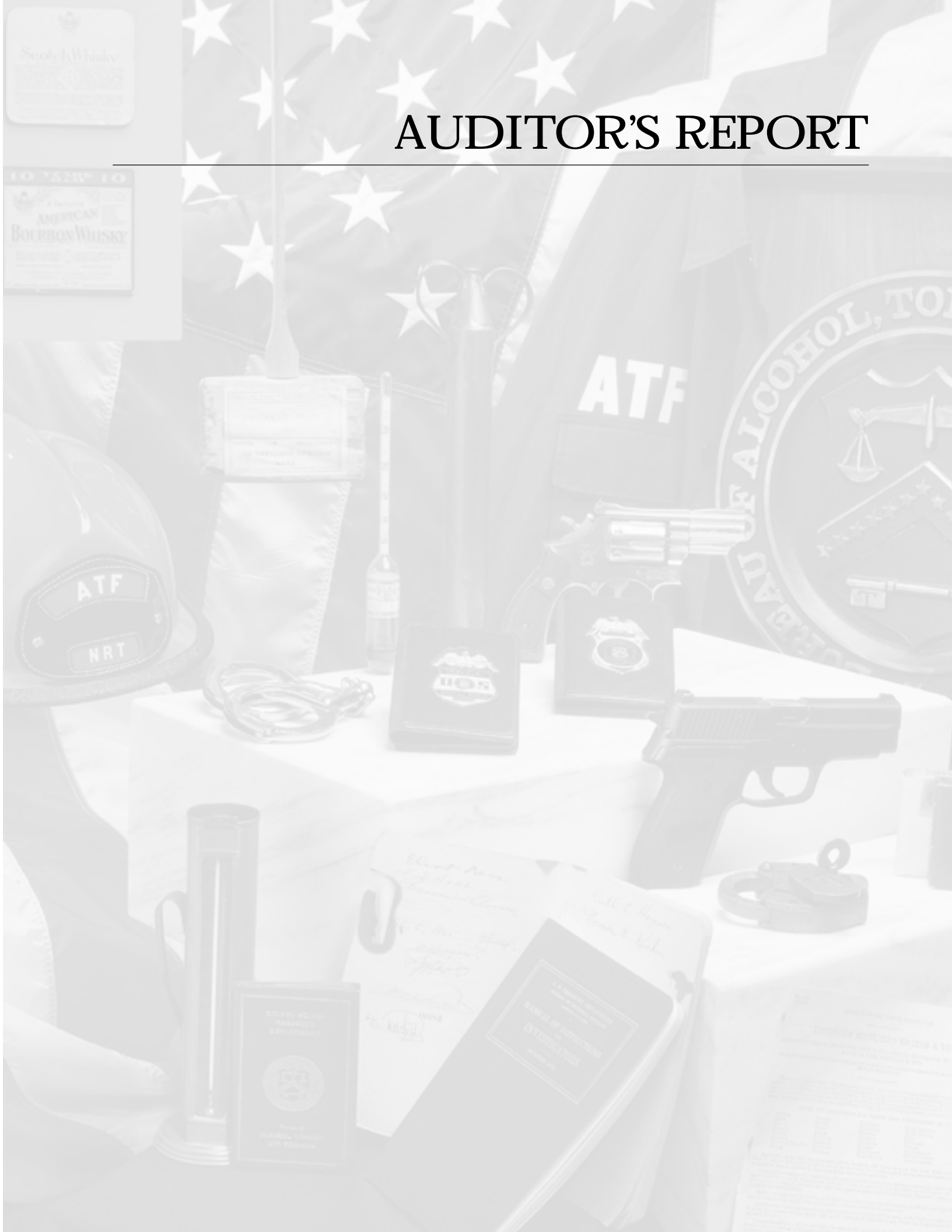
Bureau management is responsible for the fair presentation of information contained in the principal financial statements, in conformity with the accounting hierarchy described in Note 1, Summary of Significant Accounting Policies, which constitutes an “other comprehensive basis of accounting.” Management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

LIMITATIONS OF FINANCIAL STATEMENTS

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

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

AUDITOR'S REPORT



AUDITOR'S REPORT



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

MAR 27 1998

MEMORANDUM FOR JOHN W. MAGAW, DIRECTOR
BUREAU OF ALCOHOL, TOBACCO AND FIREARMS

FROM: Richard B. Calahan *Richard B. Calahan*
Deputy Inspector General

SUBJECT: Audited Fiscal Year 1997 Financial Statements of the
Bureau of Alcohol, Tobacco and Firearms

The attached Fiscal Year 1997 financial statements of the Bureau of Alcohol, Tobacco and Firearms were audited by Price Waterhouse, LLP, an Independent Public Accountant (IPA), under contract with the Office of Inspector General. The audit was performed in accordance with the Government Management Reform Act (GMRA) of 1994. The IPA issued the following reports which are included in the attachment:

- Report of Independent Accountants on the Financial Statements;
- Report of Independent Accountants on Internal Controls; and
- Report of Independent Accountants on Compliance with Laws and Regulations

The IPA rendered an unqualified opinion on the financial statements for the year ended September 30, 1997. The IPA's report on internal controls cited five reportable conditions relating to enhancing controls over the information security management function, improving the effectiveness of access control software, implementing standard program change control processes, evaluating telecommunications security risks, and implementing policies to rotate inspectors. None of these conditions were considered a material weakness. In addition, the report on compliance with laws and regulations disclosed no instances of noncompliance.

We have submitted a copy of the attached package to the Secretary of the Treasury and to the Assistant Secretary for Management/Chief Financial Officer for transmission to the Office of Management and Budget.

AUDITOR'S REPORT

Page 2 - John W. Magaw

My staff monitored the conduct of the audit and performed a quality control review of the IPAs working papers. The audit was performed in accordance with generally accepted Government auditing standards and met the requirements of the GMRA.

The IPA will issue a management letter discussing various issues that were identified during the audit, but which are not required to be included in the audit reports.

Should you or your staff have questions, you may contact me at (202) 622-1090, or a member of your staff may contact Antoine Elachkar, Director, Financial Audits Division at (202) 927-5781.

Attachment

AUDITOR'S REPORT

Price Waterhouse LLP

1616 North Fort Myer Drive
Arlington, VA 22209-3185

Telephone 703 741 1000
Facsimile 703 741 1616

Price Waterhouse



REPORT OF INDEPENDENT ACCOUNTANTS

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

We have audited the Statement of Financial Position of the Bureau of Alcohol, Tobacco and Firearms (ATF) as of September 30, 1997 and the related Statement of Operations and Changes in Net Position for the year ended September 30, 1997. These financial statements are the responsibility of ATF's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of ATF for the year ended September 30, 1996 were audited by the U.S. Department of the Treasury Office of Inspector General whose report dated April 25, 1997 expressed an unqualified opinion on those statements.

We conducted our audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 93-06, *Audit Requirements for Federal Financial Statements*, as amended. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, these financial statements were prepared on the basis of accounting used to conform with OMB Bulletin No. 94-01, *Form and Content of Agency Financial Statements*, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements audited by us present fairly, in all material respects, the financial position of ATF at September 30, 1997 and the results of its operations and changes in net position for the year ended September 30, 1997, in conformity with the basis of accounting described in Note 1 to the financial statements.

As discussed in Note 9, ATF, effective for the fiscal year ended September 30, 1997, adopted Statement of Federal Financial Accounting Standards No 5, *Accounting for Liabilities of the Federal Government*.

We were engaged for the purpose referred to in the first paragraph of this report. The information in the "Management's Overview" (Overview) section is not a required part of the financial statements, but is supplementary information required by OMB Bulletin 94-01, *Form and Content of Agency Financial Statements*. We do not express an overall opinion on this

AUDITOR'S REPORT

Report of Independent Accountants
Page 2



information. However, we compared this information for consistency with the financial statements and discussed the methods of measurement and presentation with ATF management. Based on this limited work, we found no material inconsistencies with the financial statements.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 9, 1998 on our consideration of ATF's internal control structure and a report dated February 9, 1998 on its compliance with laws and regulations.

Eric Waterhouse LLP

February 9, 1998
Arlington, Virginia

AUDITOR'S REPORT

Price Waterhouse LLP

1616 North Fort Myer Drive
Arlington, VA 22209-3195

Telephone 703 741 1900
Facsimile 703 741 1516

Price Waterhouse



REPORT OF INDEPENDENT ACCOUNTANTS ON INTERNAL CONTROLS

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

We have audited the financial statements of the Bureau of Alcohol, Tobacco and Firearms (ATF) as of and for the year ended September 30, 1997, and have issued our report thereon dated February 9, 1998.

We conducted our audit in accordance with generally accepted auditing standards; *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 93-05, *Audit Requirements for Federal Financial Statements*, as amended. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of ATF is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments are required to assess the expected benefits and related costs of internal control policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that: (1) transactions are properly recorded and accounted for to permit the preparation of reliable financial statements and to maintain accountability over assets; (2) funds, property, and other assets are safeguarded from loss from unauthorized use or disposition; (3) transactions, including those related to obligations and costs, are executed in compliance with laws and regulations that could have a direct and material effect on the financial statements and other relevant laws and regulations; and (4) data that support reported performance measures are properly recorded and accounted for to permit preparation of reliable and complete performance information. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements of ATF for the year ended September 30, 1997, we obtained an understanding of the design of significant internal control structure policies and procedures and whether they have been placed in operation, tested certain controls, and assessed control risk in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

With respect to internal controls relevant to data that support reported performance measures, we obtained an understanding of relevant internal control structure policies and procedures

AUDITOR'S REPORT

Report on Internal Controls
Page 2



designed to achieve the above noted control objectives, and assessed risk related to management's assertions that the data is complete and relates to events that have occurred.

We noted certain matters in the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants and OMB Bulletin No. 93-06, *Audit Requirements for Federal Financial Statements*, as amended. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to meet the internal control objectives described above.

Enhance Controls Over the Information Security Management Function

Since last year's audit, ATF has further enhanced staffing for its information security function by supplementing the existing Program Manager for Information Systems Security with one staff level contract employee. However, ATF still lacks sufficient staffing resources to implement and maintain an effective automated information security function. Because of these staffing shortages, heavy reliance is placed on a systems programmer to maintain the security software, generate security software reports, and set up users with dial-up access. In addition, an employee in the Operations area is responsible for the additions, deletions and modifications of user access to mainframe systems. The resulting separation of duties weaknesses increase the potential for authorized system users to engage in improper systems-related activities. We recommend that ATF further increase staffing for the Data Security organization and ensure that only members of that staff perform data security administration tasks.

Continue to Improve Effectiveness of Access Control Software

Our work identified a number of weaknesses in the Access Control Software and related access control areas. Because of the sensitive nature of these findings, details and recommendations for correcting these weaknesses will be presented in a separate management letter to ATF.

Implement Standard Program Change Control Processes

Last year's audit identified and reported under the heading, *Implement Adequate Separation of Duties*, that ATF did not have an adequate control framework for application software changes. This condition still exists. The current process does not ensure that all program changes are consistently requested, authorized, and accepted. Without effective change controls, erroneous and unauthorized changes could be applied to ATF application systems. We recommend that ATF expedite ongoing efforts to develop, approve, and implement a bureau-wide program change control process.

AUDITOR'S REPORT

Report on Internal Controls
Page 3



Evaluate Telecommunications Security Risks

Our review disclosed a weakness in the Telecommunications Security area. Because of the sensitive nature of these findings, details and recommendations for correcting this weakness will be presented in a separate management letter to ATF.

Implement Policies to Rotate Inspectors

The use of inspectors to review taxpayer operations is integral to the control structure for ensuring that the proper amount of excise tax is paid to ATF. In the prior year, it was noted that inspectors may be assigned on a long-term basis to perform reviews of the same taxpayer, which could be construed as an impairment of the inspector's objectivity or independence. In response to this matter, ATF has drafted policies that will set forth procedures for establishing an inspector rotation policy. These policies and procedures are expected to be issued in final form during fiscal year 1998.

Management's Response

ATF management concurs with each of the above noted findings and corresponding recommendations.

Status of Prior Year's Reportable Conditions

We followed up on the status of the nine fiscal year 1996 reportable conditions identified in the Report of the Inspector General dated April 25, 1997. That report included all five of the reportable conditions described above. We also found that ATF management's corrective actions or the existence of other mitigating controls or other factors resolved the remaining four fiscal year 1996 reportable conditions as noted below:

- Strengthen Controls Over Personnel/Payroll Processing
- Improve Procedures to Record Property and Equipment Disposals Timely
- Strengthen Controls Over the Federal Excise Tax Database
- Improve Controls Over Accountability for Seized Property

* * *

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

AUDITOR'S REPORT

Report on Internal Controls
Page 4



Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe none of the fiscal year 1997 reportable conditions described above is a material weakness.

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

This report is intended for the information of the U.S. Department of the Treasury Office of Inspector General, the Department of the Treasury, the management of ATF, and the Congress. However, this report is a matter of public record and its distribution is not limited.

Eric Waterhouse UP

February 9, 1998
Arlington, Virginia

AUDITOR'S REPORT

Price Waterhouse LLP

1816 North Fort Myer Drive
Arlington, VA 22209-3195

Telephone 703 741 1000
Facsimile 703 741 1616

Price Waterhouse



REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE WITH LAWS AND REGULATIONS

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

We have audited the financial statements of the Bureau of Alcohol, Tobacco and Firearms (ATF) as of and for the year ended September 30, 1997, and have issued our report thereon, dated February 9, 1998. We conducted our audit in accordance with generally accepted auditing standards; *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 93-06, *Audit Requirements for Federal Financial Statements*, as amended. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of ATF is responsible for complying with laws and regulations applicable to ATF. As part of obtaining reasonable assurance about whether ATF's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts and certain other laws and regulations specified in OMB Bulletin No. 93-06, *Audit Requirements for Federal Financial Statements*, as amended, including the requirements referred to in the Federal Financial Management Improvement Act (FFMIA) of 1996.

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

Under FFMIA, we are required to report whether the agency's financial management systems substantially comply with the Federal financial management systems requirements, applicable accounting standards, and the United States Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance using the implementation guidance for FFMIA issued by OMB on September 9, 1997.

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

An audit of the financial statements conducted in accordance with generally accepted auditing standards; *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 93-06, *Audit Requirements for Federal Financial Statements*, as amended, is not designed to detect whether ATF's systems are Year 2000 compliant. Further, we have no responsibility with regard to ATF's efforts to make its systems, or any other systems, such as those of ATF's vendors, service providers, or any other third parties, Year 2000 compliant or provide assurance on whether ATF has

AUDITOR'S REPORT

Report on Compliance with Laws and Regulations
Page 2



addressed or will be able to address all of the affected systems on a timely basis. These are responsibilities of ATF's management.

Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit and, accordingly, we do not express an opinion. This report is intended for the information of the U.S. Department of the Treasury Office of Inspector General, the Department of the Treasury, the management of ATF, and the Congress. However, this report is a matter of public record, and its distribution is not limited.

Eric Waterhouse LLP

February 9, 1998
Arlington, Virginia

MESSAGE FROM THE CHIEF FINANCIAL OFFICER

Performance measures, GPRA, Non-entity assets, penetration testing - the lexicon of terms and concepts associated with our systems of accountability create a challenge for many of us to master. This report of our Fiscal Year 1997 performance is aimed at cutting through the jargon to give you an understandable picture of ATF's accomplishments and use of resources. The foremost asset in our year long pursuit of quality work has been the coalition of financial management professionals and program personnel. The presentations here are the result of an ongoing partnership with the Department of the Treasury and the Inspector General's office. Joining the team this year are independent public accountants, Price Waterhouse.



I am pleased to report that the substantial efforts of the professionals at ATF have produced an unqualified opinion for the third year in a row. Our focus this year has been to build on a system of timely, accurate and meaningful financial information that incorporated performance measures into budget and operational plans. The difficult task of reporting our work in terms of meaningful outcomes has been rewarded through the recognition of appropriation and budget officials.

The cumulative effect and purpose of this thorough oversight and reporting is not to rest on our accomplishments, but to move even more aggressively toward systems that will give very timely information on costs and performance. The installation of new systems and the training of personnel to accomplish these goals are massive. The potential rewards are equally enormous.

You will read many times between now and the year 2000 how organizations are preparing to meet the challenges of the new millennium. ATF hasn't been able to wait for this moment in time to meet our goals. The expectation to be 'better than the rest' has been our ongoing credo. Our resilient and motivated personnel are resolved to work creatively to make the approaching year 2000 a seamless transition to the next millennium.

Providing leadership and resources to our enforcement organization is foremost on our agenda. The coming years will see ATF stepping out as one of the first Treasury Bureaus to "pilot" a new integrated personnel system, implement cost accounting concepts and generate secure electronic commerce reporting and information systems. This report of our FY 1997 performance provides a sound and substantial foundation to meet not only our plans and goals but also the expectations of the public that we serve.

A handwritten signature in black ink, which appears to read "William F. Cole". The signature is fluid and cursive, written over a white background.

FINANCIAL STATEMENTS



FINANCIAL STATEMENTS

DEPARTMENT OF THE TREASURY
BUREAU OF ALCOHOL, TOBACCO AND FIREARMS
STATEMENTS OF FINANCIAL POSITION
As of September 30, 1997 and 1996

| | 1997 | 1996 |
|--------------------------------------|-------------------|-------------------|
| | (In Thousands) | |
| ASSETS | | |
| Entity Assets | | |
| Intragovernmental Assets: | | |
| Fund Balance with Treasury (Note 2) | \$ 135,118 | \$ 90,488 |
| Accounts Receivable (Note 3) | 9,054 | 12,001 |
| Governmental Assets: | | |
| Other Assets | 5,884 | 244 |
| Cash (Note 2) | 2,237 | 2,242 |
| Property and Equipment, Net (Note 4) | 46,745 | 28,712 |
| Total Entity Assets | 199,038 | 133,687 |
| Non-Entity Assets | | |
| Intragovernmental Assets: | | |
| Fund Balance with Treasury (Note 2) | 112 | 1,849 |
| Accounts Receivable (Note 3) | 10,017 | 13,206 |
| Governmental Assets: | | |
| Accounts Receivable, Net (Note 3) | 2,909 | 2,578 |
| Total Non-Entity Assets | 13,038 | 17,633 |
| Total Assets | \$ 212,076 | \$ 151,320 |

The accompanying notes are an integral part of these statements.

FINANCIAL STATEMENTS

DEPARTMENT OF THE TREASURY
BUREAU OF ALCOHOL, TOBACCO AND FIREARMS
STATEMENTS OF FINANCIAL POSITION
As of September 30, 1997 and 1996

| | 1997 | 1996 |
|--|------------------|------------------|
| | (In Thousands) | |
| LIABILITIES | | |
| Liabilities Covered by Funded Resources | | |
| Entity | | |
| Intragovernmental Liabilities: | | |
| Accounts Payable | \$ 3,108 | \$ 2,222 |
| Governmental Liabilities: | | |
| Accounts Payable | 24,375 | 17,079 |
| Accrued Funded Payroll Benefits | 14,211 | 12,612 |
| Other Liabilities | 1,204 | 556 |
| Total Entity Liabilities | 42,898 | 32,469 |
| Non-Entity | | |
| Intragovernmental Liabilities: | | |
| Payable to Treasury | 4,773 | 2,514 |
| Governmental Liabilities: | | |
| Accounts Payable | 6,255 | 13,270 |
| Other Liabilities (Note 2) | 2,010 | 1,849 |
| Total Non-Entity Liabilities | 13,038 | 17,633 |
| Total Liabilities Covered by Funded Resources | 55,936 | 50,102 |
| Liabilities Not Covered by Funded Resources | | |
| Entity | | |
| Intragovernmental Liabilities: | | |
| Accrued FECA Liability (Note 5) | 16,404 | 15,879 |
| Governmental Liabilities: | | |
| Accrued Leave | 24,318 | 23,541 |
| FECA Actuarial Liability (Note 5) | 89,107 | 79,474 |
| Capital Lease Liability (Note 6) | 796 | 145 |
| Contingent Liabilities (Note 7) | 661 | 865 |
| Total Liabilities Not Covered by Funded Resources | 131,286 | 119,904 |
| Total Liabilities | 187,222 | 170,006 |
| NET POSITION (Note 8) | 24,854 | (18,686) |
| Total Liabilities and Net Position | \$212,076 | \$151,320 |

The accompanying notes are an integral part of these statements.

FINANCIAL STATEMENTS

DEPARTMENT OF THE TREASURY
BUREAU OF ALCOHOL, TOBACCO AND FIREARMS
STATEMENT OF OPERATIONS AND CHANGES IN NET POSITION
For the Years Ended September 30, 1997 and 1996

| | 1997 | 1996 |
|--|------------------|--------------------|
| | (In Thousands) | |
| REVENUE AND FINANCING SOURCES | | |
| Entity Revenue and Financing Sources: | | |
| Appropriated Capital Used | \$ 462,992 | \$ 411,778 |
| Reimbursement from Services Provided (Note 9) | 15,552 | 18,121 |
| Other Financing Sources (Note 9) | 33,501 | 2,880 |
| Total Entity Revenue and Financing Sources | 512,045 | 432,779 |
| Non-Entity Revenue and Financing Sources: | | |
| Taxes (Note 10) | 12,288,182 | 12,227,044 |
| Interest and Penalties, Non-Federal (Note 10) | 1,903 | 3,411 |
| Other Revenue (Note 9) | 197 | 148 |
| Less: | | |
| Taxes and Receipts Transferred to the Treasury and Other Agencies | (12,290,282) | (12,230,603) |
| Total Non-Entity Revenue and Financing Sources | 0 | 0 |
| Total Revenue and Financing Sources | 512,045 | 432,779 |
| ENTITY EXPENSES | | |
| Program and Operating Expenses (Note 11) | 498,140 | 430,824 |
| Depreciation and Amortization | 14,121 | 11,437 |
| Change in Actuarial Liability (Note 5) | 9,632 | 4,023 |
| Other Expenses | 882 | 295 |
| Total Entity Expenses | 522,775 | 446,579 |
| SHORTAGE OF REVENUE AND FINANCING SOURCES OVER TOTAL EXPENSES | (10,730) | (13,800) |
| NET POSITION, BEGINNING BALANCE, AS PREVIOUSLY STATED | (18,686) | 67,487 |
| Prior Period Adjustment (Note 12) | 0 | (2,759) |
| NET POSITION, BEGINNING BALANCE, AS RESTATED | (18,686) | 64,728 |
| Non-Operating Changes (Note 13) | 54,270 | (69,614) |
| NET POSITION, ENDING BALANCE | \$ 24,854 | \$ (18,686) |

The accompanying notes are an integral part of these statements.

FINANCIAL STATEMENTS

BASIS OF PRESENTATION

The financial statements were prepared to report the financial position and results of operations of the Bureau of Alcohol, Tobacco and Firearms (ATF or the Bureau). The financial statements have been prepared from the books and records of ATF in accordance with the form and content for financial statements specified by the Office of Management and Budget (OMB) in OMB Bulletin No. 94-01, and ATF's accounting policies which are summarized in this note. These statements are therefore different from the financial reports, also prepared by ATF pursuant to OMB directives, that are used to monitor and control ATF's use of budgetary resources.

NOTE 1

Summary of Significant Accounting Policies

REPORTING ENTITY

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

BUDGETS AND BUDGETARY ACCOUNTING

Congressional appropriations provide financing sources on an annual and no-year basis. These appropriations finance operating expenses and the purchase of property and equipment as specified by law. Appropriations are also received to meet specific program objectives. The Bureau's activities are funded by the following:

- 20-7-1000 - Salaries and Expenses Appropriation
- 20-7-1000 - Salaries and Expenses Reimbursable Authority
- 20-X-1000 - No-year Appropriation
- 20-6/7-1000 - Prior-year Appropriations
- 20-7-1000 - Appropriation Transfers
- 20-X-1003 - Laboratory Facilities
- 20-X-8526 and 20-X-8528 - Violent Crime Trust Funds

The accompanying financial statements of ATF include the accounts of the above funds under ATF control.

BASIS OF ACCOUNTING

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

FINANCIAL STATEMENTS

NOTE 1

Summary of Significant Accounting Policies (Continued)

- Federal Accounting Standards Advisory Board (FASAB) standards agreed to and published by the Joint Financial Management Improvement Program (JFMIP) Principals as of September 30, 1997;
- Form and content requirements included in OMB Bulletin No. 94-01, dated November 16, 1993;
- Accounting principles and standards published by the Department of the Treasury accounting policy and procedure manuals as of March 29, 1991, which are prevalent practices; and
- Accounting principles published by other Federal and private sector authoritative standard setting bodies and authoritative sources.

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

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

REVENUE AND OTHER FINANCING SOURCES

ATF receives the majority of the funding needed to support the Bureau through congressional appropriations. ATF receives both annual and no-year appropriations that may be used, within statutory limits, for operating and capital expenditures (primarily equipment, furniture and furnishings). Additional amounts are obtained through reimbursements from other Federal agencies for law enforcement services performed for them by ATF.

Appropriations are recognized as a financing source at the time the related program or administrative expense is incurred. Appropriations expended for property are recognized as a financing source when the asset is consumed in operations (depreciation). Other revenue is recognized when earned, i.e., when services are rendered.

Costs financed by other Federal entities on behalf of ATF are recognized as imputed financing sources as required by Statements of Federal Financial Accounting Standards (SFFAS) No. 5, effective for FY 1997. Costs financed by other Federal entities on behalf of ATF were not recognized in FY 1996.

FINANCIAL STATEMENTS

As an agent of the Federal Government, ATF collects excise taxes from the alcohol, tobacco, firearms and ammunition industries, as well as permit and license fees. In addition, Special Occupational Taxes are collected from businesses, including producers, distributors and retailers of liquor, dealers in industrial alcohol, and certain firearms businesses.

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

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

Receivables are established through assessments of taxes and the imposition of penalties and interest. ATF recognizes revenue when non-entity accounts receivable are established, following the Department of the Treasury guidance published in *Accounting for Revenue*, May 1995.

ASSETS

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

Non-entity intragovernmental assets also include the fund balance with Treasury as well as accounts receivable due from Treasury to

NOTE 1
**Summary of
 Significant
 Accounting Policies**
 (Continued)

FINANCIAL STATEMENTS

NOTE 1

**Summary of
Significant
Accounting Policies**
(Continued)

disburse approved refund claims of excise taxes and fees. Non-entity governmental assets consist principally of receivables for excise taxes and fees which are to be distributed to the Treasury, other Federal agencies and other governments. None of the non-entity assets are considered financing sources (revenue) available to offset operating expenses of ATF.

FUND BALANCE WITH TREASURY AND CASH

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

PROPERTY AND EQUIPMENT

The General Services Administration provides the land and buildings in which ATF operates and charges ATF rent that approximates the commercial rental for similar properties.

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

At the beginning of FY 1996, ATF increased the capitalization threshold of property from \$5,000 to \$25,000. Items of property capitalized in previous years will continue to be depreciated over their remaining useful lives.

Equipment with a unit price less than \$25,000 that is purchased in bulk, totaling \$250,000 or greater, for special projects or start up activities is also capitalized. Bulk purchases are grouped according to commodity type and depreciated using the same methodology as single capitalized purchases. At the beginning of FY 1996, ATF increased the capitalization threshold of bulk purchases from \$75,000 to \$250,000. Bulk purchases capitalized in previous years will continue to be depreciated over their remaining useful lives.

LIABILITIES

Entity liabilities represent the amount of monies or other resources that are likely to be paid by ATF as the result of a transaction or event that has already occurred. However, no liability can be paid by ATF

FINANCIAL STATEMENTS

absent an appropriation. Liabilities for which an appropriation has not been enacted are classified as unfunded liabilities and there is no certainty that an appropriation will be enacted. Also, liabilities of ATF arising from other than contracts can be abrogated by the Government, acting in its sovereign capacity.

Non-entity intragovernmental liabilities consist of amounts payable to the Treasury for collections on excise tax and fee receivables. Non-entity governmental liabilities consist of amounts due to be refunded to taxpayers as well as amounts held in escrow for offers-in-compromise and cash bonds held in lieu of corporate surety bonds guaranteeing payment of taxes.

ANNUAL, OTHER AND SICK LEAVE

Annual and other types of leave are accrued as earned, and the accrual is reduced as leave is taken. The balance reflects current pay rates. Sick leave is expensed as taken.

LITIGATION CONTINGENCIES AND SETTLEMENTS

Probable and estimable unsettled litigation and claims against ATF are recognized as a liability and expense for the full amount of the expected loss in FY 1997. Expected litigation and claim losses include settlements to be paid from the Judgment Fund on behalf of ATF and settlements to be paid from Bureau appropriations as required by Interpretation of Federal Financial Accounting Standards No. 2, effective for FY 1997. Probable and estimable unsettled litigation and claims against ATF to be paid from the Judgment Fund on behalf of ATF were not recognized in FY 1996.

Settlements paid from the Judgment Fund for ATF in FY 1997 are recognized as an expense and imputed financing source in FY 1997 as required by Interpretation No. 2. Settlements paid from the Judgment Fund for ATF in FY 1996 were not recognized.

RETIREMENT PLAN

Most ATF employees hired prior to January 1, 1984, participate in the Civil Service Retirement System (CSRS), to which ATF and the employee each contribute 7 percent of basic pay (7.5 percent for those personnel classified as law enforcement agents) for a total contribution rate of 14 percent. On January 1, 1984, the Federal Employees' Retirement System (FERS) went into effect pursuant to Public Law 99-335. Employees hired after December 31, 1983, are automatically covered by FERS and Social Security. All employees are eligible to contribute to the Thrift Savings Plan (TSP). For those employees

NOTE 1
**Summary of
 Significant
 Accounting Policies**
 (Continued)

FINANCIAL STATEMENTS

NOTE 1

Summary of Significant Accounting Policies
(Continued)

participating in the FERS, a TSP account is automatically established, and ATF makes a mandatory 1 percent contribution to this account. In addition, ATF makes matching contributions, ranging from 1 to 4 percent, for FERS eligible employees who contribute to their TSP accounts. Matching contributions are not made to the TSP accounts established by CSRS employees. For most employees hired after December 31, 1983, ATF also contributes the employer's matching share of Social Security. For FERS basic benefit, the employee contributes .8 percent of their basic pay while ATF contributes 11.5 percent for a total contribution of 12.3 percent in FY 1997. The cost of providing a FERS basic benefit as provided by OPM is equal to the amounts contributed by ATF and the employees because the plan is fully funded.

ATF recognized the full cost of providing future pension and other retirement benefits (ORB) for current employees as required by Statements of Federal Financial Accounting Standards (SFFAS) No. 5, effective for FY 1997. Full cost includes pension and ORB contributions paid out of Bureau appropriations and costs financed by the Office of Personnel Management (OPM). Pension and ORB costs financed by the OPM were not recognized in FY 1996. Reporting amounts such as plan assets, accumulated plan benefits, or unfunded liabilities, if any, is the responsibility of the OPM.

NOTE 2

Fund Balance with Treasury and Cash

Fund balance with Treasury and cash as of September 30, 1997 and 1996, consisted of the following:

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

FINANCIAL STATEMENTS

| FY 1996 <i>(In Thousands)</i> | | | | |
|---|------------------|--------------------|-------------------|-----------------|
| Entity: | Obligated | Unobligated | | Total |
| | | Available | Restricted | |
| Trust Funds | \$10,553 | \$ 3,748 | \$ — | \$14,301 |
| Appropriated Funds | 46,051 | 25,864 | 3,744 | 75,659 |
| Other Fund Types | — | 528 | — | 528 |
| Fund Balance | <u>\$56,604</u> | <u>\$30,140</u> | <u>\$3,744</u> | <u>\$90,488</u> |
| Cash | | <u>\$ 2,242</u> | — | <u>\$ 2,242</u> |
| Non-Entity: | | | | |
| Fund Balance | | | <u>\$1,849</u> | <u>\$ 1,849</u> |

NOTE 2
**Fund Balance with
Treasury and Cash**
(Continued)

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

Entity funds restricted from use in FY 1997 represent the FY 1992 fund balance that will be withdrawn and returned to the Treasury. Entity funds restricted from use in FY 1996 represent the FY 1991 fund balance that was withdrawn and returned to the Treasury.

Cash available for ATF use represents petty cash imprest and agent cashier funds. The agent cashier funds are used to finance the purchase of evidence and information from informants in open ATF investigations and enforcement operations.

Non-entity fund balance consists of offers-in-compromise held in escrow accounts representing reduced payments received by ATF from parties assessed taxes, penalties, interest and fees awaiting resolution. Non-entity fund balance also consists of cash bonds received (money orders or cash) in lieu of corporate surety bonds guaranteeing payment of taxes. These amounts are reflected as non-entity, other governmental liabilities on the Statements of Financial Position. These funds are restricted solely for the purposes described and are unavailable to fund ATF operations.

FINANCIAL STATEMENTS

NOTE 3

Accounts Receivable

Accounts receivable as of September 30, 1997 and 1996, are as follows:

| <i>(In Thousands)</i> | <i>FY 1997</i> | | <i>FY 1996</i> | |
|---|----------------|-------------------|----------------|-------------------|
| | <i>Entity</i> | <i>Non-Entity</i> | <i>Entity</i> | <i>Non-Entity</i> |
| Intragovernmental Receivables | \$9,054 | \$ 10,017 | \$12,001 | \$ 13,206 |
| Governmental Receivables: | | | | |
| Taxes/Fees | | \$ 14,274 | | \$ 16,533 |
| Interest | | 2,987 | | 2,809 |
| Penalties | | 1,755 | | 1,489 |
| Restitution Cases | | 9 | | 8 |
| | | 19,025 | | 20,839 |
| Less: allowance for uncollectible amounts | | (16,116) | | (18,261) |
| Governmental Receivables, Net | | \$ 2,909 | | \$ 2,578 |

Intragovernmental entity receivables represent amounts due under reimbursable agreements with Federal entities for services provided by ATF. An allowance for receivables deemed uncollectible was not established for these amounts because monies due from other Federal entities are considered fully collectible.

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

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

An allowance for uncollectible amounts has been recognized for governmental non-entity receivables. The allowance is based on an analysis of individual receivable balances and historical collections and the application of estimated collectible amounts to categories of receivable balances at year end. In FY 1997 and FY 1996, approximately \$6.9 and \$8.1 million of the allowance, respectively, was based on cases that ATF had entered into negotiations for payment through offers-in-compromise.

FINANCIAL STATEMENTS

Property and equipment consist of the following as of September 30, 1997 and 1996:

NOTE 4
**Property and
Equipment, Net**

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

| <i>FY 1996</i> <i>(In Thousands)</i> | <i>Service Life (Years)</i> | <i>Acquisition Value</i> | <i>Accumulated Depreciation</i> | <i>Net Book Value</i> |
|---|-------------------------------------|------------------------------|-------------------------------------|-------------------------------|
| ADP Software | 3 | \$ 162 | \$ 88 | \$ 74 |
| Equipment | 2 - 10 | 74,276 | 48,271 | 26,005 |
| Leasehold Improvements | | 3,886 | 1,697 | 2,189 |
| Assets Under Capital Lease | | 450 | 159 | 291 |
| Construction in Progress | | 153 | — | 153 |
| Total Property & Equipment | | \$78,927 | \$50,215 | \$28,712 |

Construction in progress represents initial costs of developing Bureau requirements for the construction of a new headquarters building.

- Depreciation and amortization are calculated using the straight line method.
- Leasehold improvements are amortized over the lesser of the life of the lease or useful life of the asset.

Assets under capital lease are capitalized at the lesser of present value of future payments or fair market value at the time of acquisition and depreciated under the guidelines of the respective property categories.

FINANCIAL STATEMENTS

NOTE 5

FECA Liabilities

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to cover Federal civilian employees injured on the job, employees who have incurred work-related occupational diseases, and beneficiaries of employees whose deaths are attributable to a job-related injury or occupational disease. Claims incurred for benefits to ATF employees under FECA are administered by the Department of Labor (DOL) and are ultimately paid by ATF.

The accrued FECA liability as of September 30, 1997 and 1996, was \$16.4 million and \$15.9 million, respectively. This accrual represents claims incurred for benefits administered and paid by DOL to ATF employees. ATF will reimburse DOL for these claims in future periods.

Based on information provided by DOL, the Department of the Treasury determined that the FECA actuarial liability for ATF, as of September 30, 1997 and 1996, was \$89.1 million and \$79.5 million, respectively. The FECA actuarial estimate includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. The liability was determined using the paid losses extrapolation method calculated over the next 37-year period. This method utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. For FY 1997, these annual benefit payments have been discounted to present value using the discount rates of: 6.24 percent in year one; 5.82 percent in year two; 5.60 percent in year three; 5.45 percent in year four; 5.40 percent in year five and thereafter. For FY 1996, annual benefit payments were discounted to present value using discount rates of: 6.21 percent in year one, 5.97 percent in year two, 5.60 percent in year three, 5.32 percent in year four, 5.15 percent in year five, and 5.10 percent each year thereafter.

The effect of the increases in the FY 1997 and FY 1996 estimated actuarial liabilities from the FYs 1996 and 1995 estimated actuarial liabilities, respectively, of \$9.6 million and \$4.0 million are reflected as a change in actuarial liability on the Statements of Operations and Changes in Net Position.

FINANCIAL STATEMENTS

CAPITAL LEASE LIABILITY

NOTE 6

Future minimum lease payments due for capital leases as of September 30, 1997 and 1996, are as follows:

Leases

| Fiscal Year <i>(In Thousands)</i> | <i>FY 1997</i> | <i>FY 1996</i> |
|---|-----------------------|-----------------------|
| 1997 | \$ — | \$118 |
| 1998 | 473 | 43 |
| 1999 | 417 | 18 |
| 2000 | 15 | — |
| 2001 | 8 | — |
| 2002 | 8 | — |
| Future Lease Payments | \$921 | \$179 |
| Less: Imputed Interest | (125) | (34) |
| Capital Lease Liability | <u>\$796</u> | <u>\$145</u> |

The Bureau enters into capital lease agreements for laboratory and office equipment. Assets acquired by capital lease agreements are reported on the accompanying Statements of Financial Position based on the present value of the future minimum lease payments. Imputed interest rates range from 5.0 to 7.6 percent.

The capital lease liability is expected to be funded from future sources and is presented on the Statements of Financial Position as a component of entity liabilities not covered by funded resources.

OPERATING LEASES

The Bureau leases various equipment under leases accounted for as operating leases. Future commitments for operating leases as of September 30, 1997 and 1996, are as follows:

| Fiscal Year <i>(In Thousands)</i> | <i>FY 1997</i> | <i>FY 1996</i> |
|---|-----------------------|-----------------------|
| 1997 | \$ — | \$166 |
| 1998 | 261 | 138 |
| 1999 | 179 | 110 |
| 2000 | 49 | 33 |
| Future Lease Commitments | <u>\$489</u> | <u>\$447</u> |

FINANCIAL STATEMENTS

NOTE 7

Contingent Liabilities

ATF is a party to various administrative proceedings, legal actions, and claims brought by or against it. Most financial liabilities resulting from litigation and claims against ATF are payable from the permanent judgment appropriation established by 31 U.S.C. Section 1304 (Judgment Fund). In the opinion of the Bureau's management and legal counsel, the ultimate resolution of these proceedings, actions and claims will not materially affect the financial position or results of operation of ATF. At September 30, 1997 and 1996, ATF legal counsel was processing approximately 247 and 250, respectively, of these actions against the Bureau. ATF identified and accrued, at September 30, 1997 and 1996, \$661,000 and \$865,000, respectively, as probable liability on the Statements of Financial Position. The September 30, 1997 probable liability results from the following types of claims pending resolution:

- Administrative tort and employee claims in process against ATF for which counsel has identified \$124,000 as probable liability, of that; \$15,000 would affect ATF appropriations and \$109,000 would be referred to the Financial Management Service (FMS) for payment from the Judgment Fund. Counsel identified \$25,000 as probable liability affecting ATF appropriations in FY 1996. When any administrative tort claim of \$2,500 or greater is allowed, it is referred to the FMS for payment from the Judgment Fund.
- Administrative employee claims for retirement and other benefits for which counsel has identified \$400,000 as probable liability that would affect ATF appropriations. Counsel identified \$720,000 as probable liability for those claims in FY 1996.
- Personnel and EEO cases for which counsel has identified \$137,000 as probable liability that would be referred to the FMS for payment from the Judgment Fund. No liability for those cases was accrued in FY 1996.

The change in contingent liabilities from September 30, 1996 resulted from the activity detailed above and the resolution of the following claims in FY 1997:

- Administrative tort and employee claims settled.
- Administrative employee claims for retirement and other benefits settled on preferential terms.
- Cases seeking reimbursement of attorney fees under the Equal Access to Justice Act of which the Bureau recorded a \$120,000 probable liability were resolved in FY 97.

FINANCIAL STATEMENTS

ATF counsel identified at September 30, 1997, \$891,000 as reasonably possible liability resulting from the following types of claims pending resolution.

- Administrative tort and employee claims in process against ATF for which counsel has identified \$264,000 as reasonably possible liability that would be referred to the FMS for payment from the Judgment Fund.
- Administrative employee claims for retirement and other benefits for which counsel has identified \$275,000 as possible liability that would affect ATF appropriations.
- Personnel and EEO cases for which counsel has identified \$219,000 as possible liability that would be referred to the FMS for payment from the Judgment Fund.
- Cases seeking reimbursement of attorney fees under the Equal Access to Justice Act of which counsel identified \$133,000 possible liability: \$23,000 would affect ATF appropriations and \$110,000 would be referred to the FMS for payment from the Judgment Fund.

Public Law 101-510, enacted November 5, 1990, requires Federal agencies to automatically cancel obligated balances on annual appropriated Funds after specific future time periods, even though the agency remains contingently liable to pay valid contractor invoices for services received under contracts signed in the year of obligation. Legitimately incurred obligations that have not been paid at the time an appropriation is canceled must be paid from current appropriations available for the same purpose. ATF canceled approximately \$208,000 and \$470,000 of obligations relating to appropriations canceled at the end of FY 1997 and FY 1996, respectively. ATF estimates obligations relating to canceled appropriations that will be paid from future appropriations will not exceed \$1.0 million in any fiscal year.

NOTE 7
**Contingent
 Liabilities**
 (Continued)

FINANCIAL STATEMENTS

NOTE 8

Net Position

Net position of the Bureau as of September 30, 1997 and 1996, is as follows:

| <i>FY 1997</i> <i>(In Thousands)</i> | <i>Trust Funds</i> | <i>Appropriated Funds</i> | <i>Total</i> |
|--|-------------------------------|--------------------------------------|---------------------|
| Unexpended Appropriations: | | | |
| Unobligated | | | |
| Available | \$ 9,354 | \$ 29,226 | \$ 38,580 |
| Unavailable | — | 4,301 | 4,301 |
| Undelivered Orders | 10,887 | 49,942 | 60,829 |
| Invested Capital | 11,350 | 28,635 | 39,985 |
| Other | — | 12,445 | 12,445 |
| Future Funding Requirements | — | (131,286) | (131,286) |
| Net Position | \$31,591 | \$ (6,737) | \$ 24,854 |

| <i>FY 1996</i> <i>(In Thousands)</i> | <i>Trust Funds</i> | <i>Appropriated Funds</i> | <i>Total</i> |
|--|-------------------------------|--------------------------------------|---------------------|
| Unexpended Appropriations: | | | |
| Unobligated | | | |
| Available | \$ 3,748 | \$ 25,919 | \$ 29,667 |
| Unavailable | — | 3,274 | 3,274 |
| Undelivered Orders | 5,628 | 33,937 | 39,565 |
| Invested Capital | 2,654 | 19,041 | 21,695 |
| Other | — | 7,017 | 7,017 |
| Future Funding Requirements | — | (119,904) | (119,904) |
| Net Position | \$12,030 | \$ (30,716) | \$ (18,686) |

Unexpended appropriations represent the amount of spending authorized as of year-end that is unliquidated or unobligated and had not lapsed, been rescinded, or withdrawn. No-year appropriations remain available for obligation until expended. Annual appropriations remain available for upward or downward adjustment of obligations until expired.

Invested capital represents Federal Government resources invested in ATF's property and equipment. Increases to invested capital are recorded when assets are acquired with direct appropriations, and decreases are recorded as a result of the depreciation, disposition of capital assets, or consumption of materials and supplies.

FINANCIAL STATEMENTS

Other represents transfers in of equipment, materials and supplies from other Federal agencies without reimbursement, and assets donated by non-governmental entities. Increases to the other category are recorded when assets are transferred in, and decreases are recorded as a result of the depreciation, disposition of capital assets, or consumption of materials and supplies.

Future funding requirements represent (a) accumulated annual leave earned but not taken, (b) accrued workers' compensation, (c) capital lease requirements, and (d) accrued contingent liabilities. The expense for these accruals is not funded from current appropriations but rather will be funded from future appropriations and assessments.

NOTE 8
Net Position
(Continued)

Other revenue and financing sources for the years ended September 30, 1997 and 1996 are as follows:

NOTE 9
Other Revenue and Financing Sources

| <i>(In Thousands)</i> | <i>FY 1997</i> | <i>FY 1996</i> |
|--------------------------------------|----------------|----------------|
| Entity | | |
| Reimbursement from Services Provided | \$15,552 | \$18,121 |
| Other Financing Sources | \$ 103 | \$ 2,880 |
| Imputed Financing Sources | \$33,398 | \$ — |
| Non-Entity | | |
| Other Revenue | \$197 | \$148 |

Reimbursement from services provided represents amounts earned from other government agencies for services provided by the Bureau under reimbursable agreements. ATF has entered into a variety of reimbursable agreements to provide services such as enforcement, training and professional development, science and information technology, and the management of common areas. These agreements are with agencies such as the Secret Service, Department of Justice, the National Drug Intelligence Center, Housing and Urban Development, the State Department, the Environmental Protection Agency, and other components of Treasury. ATF maintains a reimbursable agreement with the governments of Puerto Rico and the Virgin Islands which stipulates that any expenses incurred by the Department of the Treasury at these sites are to be fully offset from tax collections related to distilled spirits production or manufacture.

Entity other financing sources represents depreciation of assets transferred in from other entities.

FINANCIAL STATEMENTS

NOTE 9

**Other Revenue and
Financing Sources**
(Continued)

Imputed financing sources represents \$6.7 million paid in FY 1997 by the Judgment Fund to settle lawsuits and claims against the Bureau and \$26.7 million financed in FY 1997 by the OPM to provide future pension and other retirement benefits to current ATF employees (total imputed financing sources of \$33.4 million).

**PENSION COSTS, OTHER RETIREMENT BENEFITS, AND
OTHER POSTEMPLOYMENT BENEFITS**

The cost of providing a CSRS benefit, which is 24.2 percent as provided by the Office of Personnel Management (OPM), is more than the amounts contributed by ATF and the employees. As a result of Statements of Federal Financial Accounting Standards (SFFAS) No. 5, which is effective for FY 1997, bureaus are required to report the full cost of providing pension benefits to include the cost financed by OPM. The additional expense totaling \$17.8 million is included as an expense and as an imputed financing source in the financial statements for FY 1997.

ATF does not report CSRS assets, FERS assets, accumulated plan benefits or unfunded liabilities, if any, applicable to retirement plans because the accounting for and reporting of such amounts is the responsibility of OPM. Contributions of \$32.2 million related to these plans were made for FY 1997.

Similar to Federal retirement plans, OPM, rather than ATF reports liabilities for future payments to retired employees who participate in the Federal Employees Health Benefits Program (FEHBP) and Federal Employees Group Life Insurance (FEGLI) Program. As a result of SFFAS No. 5, ATF is required to report the full cost of providing other retirement benefits (ORB). Currently ATF does not recognize expenses or contribute funds for the cost to provide health benefits and life insurance to its retirees. The FY 1997 FEHBP cost factor applied to a weighted average number of employees enrolled in the FEHBP is \$2,493 which is provided by OPM. The FEHBP ORB amount totaling \$8.8 million is included as an expense and imputed financing source in ATF's financial statements for FY 1997. The FY 1997 FEGLI cost factor for employees enrolled in the FEGLI program is .02 percent of their basic pay. The FEGLI ORB amount totaling \$40,000 is included as an expense and imputed financing source in ATF's financial statements for FY 1997. Total imputed financing sources for FY 1997 equal \$26.7 million (the sum of \$17.8 for pension expense, \$8.8 for FEHBP ORB and \$40,000 for FEGLI ORB).

FINANCIAL STATEMENTS

ATF's contribution for active employees who participate in the FEHBP was \$9.7 million for FY 1997. ATF contributions for active employees who participate in the FEGLI programs were \$455,000 for FY 1997.

NOTE 9
**Other Revenue and
 Financing Sources**
 (Continued)

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

Non-entity other revenue includes court ordered restitution for criminal acts against ATF, interest on agent cashier funds, and monies representing legally processed debts collected by the Justice Department and transferred to ATF. The debts involve commercial litigation, criminal restitution, and other monetary claims.

Taxes collected for the Federal Government, net of refund disbursements and accruals for claims payable for the years ended September 30, 1997 and 1996, include the following:

NOTE 10
Taxes

| <i>(In Thousands)</i> | <i>FY 97 Net Revenue</i> | <i>FY 96 Net Revenue</i> |
|-------------------------------------|-------------------------------------|-------------------------------------|
| Alcohol and Tobacco | | |
| Excise Taxes | \$ 12,468,447 | \$ 12,406,784 |
| Puerto Rico/Virgin Island | | |
| Cover Over | (207,956) | (223,706) |
| Manufacturer of non-Beverage | | |
| Products Drawbacks | (235,019) | (235,901) |
| Firearms Excise Taxes | 150,135 | 163,101 |
| Special Occupational Taxes | 106,338 | 107,854 |
| National Firearms Act | | |
| Making/Transfer Taxes | 1,785 | 4,330 |
| License and Permit Fees | 3,831 | 4,396 |
| Floor Stock Taxes | 33 | 104 |
| Other Tax Revenue | 588 | 82 |
| Total Tax Revenue, Net | <u>\$12,288,182</u> | <u>\$12,227,044</u> |
| Interest and Penalties, Non-Federal | <u>\$1,903</u> | <u>\$3,411</u> |

FINANCIAL STATEMENTS

NOTE 10

Taxes
(Continued)

At September 30, 1997 and 1996, ATF had approximately \$26.3 million and \$11.5 million, respectively, in refund claims under audit by the Tax Processing Center and the Technical Services offices. Refunds are payable upon approval.

Other tax revenue represents revenue resulting from various tax offers-in-compromise and payments for permit and recordkeeping violations.

NOTE 11

Program and Operating Expenses

Operating expenses by appropriation for the years ended September 30, 1997 and 1996, are as follows:

| | <i>FY 1997</i> | <i>FY 1996</i> |
|--|-------------------------|-------------------------|
| <i>(In Thousands)</i> | | |
| Personal Services and Benefits | \$339,812 | \$304,602 |
| Travel and Transportation | 20,074 | 14,925 |
| Rental, Communication and Utilities | 48,345 | 50,678 |
| Printing and Reproduction | 1,915 | 1,615 |
| Contractual Services | 46,697 | 39,659 |
| Supplies and Materials | 9,845 | 8,489 |
| Equipment not Capitalized | 24,209 | 10,204 |
| Insurance Claims and Indemnities | 7,447 | 141 |
| Other: | | |
| Contingent Liabilities | (204) | 511 |
| Total Expenses by Object Classification | <u><u>\$498,140</u></u> | <u><u>\$430,824</u></u> |

Program and operating expenses by object classification, for the years ended September 30, 1997 and 1996, are as follows:

| | <i>FY 1997</i> | <i>FY 1996</i> |
|--|-------------------------|-------------------------|
| <i>(In Thousands)</i> | | |
| Salaries and Expenses | \$445,553 | \$378,629 |
| Salaries and Expenses Reimbursable | 13,656 | 16,600 |
| Violent Crime Trust Funds | 23,710 | 24,878 |
| No-Year | 15,221 | 10,541 |
| Transfers | — | 176 |
| Total Expenses by Appropriation | <u><u>\$498,140</u></u> | <u><u>\$430,824</u></u> |

FINANCIAL STATEMENTS

In FY 1995, ATF calculated the September 30, 1995 accrued leave liability using the employee's basic rate of pay. The Bureau did not include the Law Enforcement Availability Pay (LEAP), which is an additional 25 percent of a criminal investigator's rate of basic pay, in the accrued leave calculation.

NOTE 12
**Prior Period
Adjustment**

Accordingly, in FY 1996, ATF recalculated the FY 1995 accrued leave to include LEAP. It was determined that LEAP totaling \$2.8 million was not accrued at September 30, 1995. The FY 1995 personal services and benefits expense, accrued leave, and future funding requirements balances were restated to include LEAP.

Non-operating changes for the years ended September 30, 1997 and 1996, are as follows:

NOTE 13
Non-Operating

| <i>(In Thousands)</i> | <i>FY 1997</i> | <i>FY 1996</i> |
|---|-----------------------|-----------------------|
| Change in Unexpended Appropriations | \$ 31,204 | \$ (7,687) |
| Change in Assets Transferred-In from Other Agencies | 5,428 | (2,211) |
| Change in Assets Transferred-Out to Other Agencies | — | (70,706) |
| Change in Fixed Assets | 18,289 | 2,335 |
| Payments on Prior Years' Unfunded Expenses | (651) | 8,655 |
| Total Non-Operating Changes | <u>\$54,270</u> | <u>\$(69,614)</u> |

FINANCIAL STATEMENTS

NOTE 14

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

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

Accounting methodologies for seized and forfeited property reflect standards published in OMB Statement of Federal Financial Accounting Standards No. 3, Accounting for Inventory and Related Property, OMB Bulletin No. 94-01, and Departmental accounting policy.

Seized property includes all property such as monetary instruments, real property, and tangible personal property of others, that is in actual, constructive, or custodial possession of the Federal Government as a result of enforcement of Federal law. Although seized property is not legally owned by the Federal Government until judicially or administratively forfeited, ATF does have a fiduciary responsibility for such property. Because of the fungible nature of currency and the high level of control required to maintain it, seized currency is reported as a non-entity asset of the TFF upon seizure. However, data on currency seized and/or forfeited by ATF are reported as part of this note. All seized property including currency is reported as an entity asset of the TFF upon forfeiture. All property seized by ATF for Title 18 forfeiture is accounted for in the financial statements of the TFF, and is also disclosed in this note. Seized property activity is also reported in the notes to the TFF financial statements.

Seized property is appraised at fair market value by the seizing official (ATF special agent). In cases where value cannot be readily assessed, independent appraisal is obtained. Current values and valuations at time of seizure may differ due to market fluctuations. A valuation allowance for liens or claims from a third party is reflected in schedules below.

ATF has the authority in accordance with provisions of the Federal Criminal Code and Federal Rules of Criminal Procedure to retain property within its custody for evidentiary purposes. Because this property is not seized under seizure and forfeiture laws, it is intended to be returned to the owner at some future date. This property is not disclosed in the financial statements, but does represent a fiduciary responsibility for ATF.

The following charts represent an analysis of the changes in seized property for the periods ended September 30, 1997 and 1996. ATF reports year-end seized property/currency balances based on the most recent information from the United States Attorneys and the Federal Courts on the legal status of this property/currency. Net adjustments to previously reported balances result primarily from the receipt of updated information on the legal status of this property/currency.

FINANCIAL STATEMENTS

FY 1997 Analysis of Changes in Seized Property/Currency (dollars in thousands)

| | <i>Balance 10/1/96</i> | <i>Net Adjustments</i> | <i>Seizures</i> | <i>Cash Adjustments</i> | <i>Remissions</i> | <i>Other Disposals</i> | <i>Forfeitures</i> | <i>Balance 9/30/97</i> |
|------------------------------------|----------------------------|----------------------------|-----------------|-----------------------------|-------------------|----------------------------|--------------------|----------------------------|
| Currency | \$2,389 | (\$258) | \$1,066 | \$ — | \$ — | \$ — | \$(1,741) | \$1,456 |
| Other Cash | — | — | — | — | — | — | — | — |
| Other Monetary Instruments | 930 | 2 | — | 45 | — | — | (49) | 928 |
| Real Property | 111 | — | 315 | — | — | — | (217) | 209 |
| General Property, Cigarettes | 559 | (129) | 1,049 | — | — | — | (1,033) | 446 |
| General Property, Other Units | 26 | (21) | 55 | — | — | — | (1) | 59 |
| General Property, Liquor | 652 | (191) | 7 | — | — | — | (262) | 206 |
| General Property, Prohibited Units | — | — | — | — | — | — | — | — |
| Aircraft | — | — | — | — | — | — | — | — |
| Vehicles | 778 | (312) | 360 | — | — | — | (282) | 544 |
| Total | \$5,445 | \$ (909) | \$2,852 | \$45 | \$ — | \$ — | \$(3,585) | \$3,848 |

FY 1996 Analysis of Changes in Seized Property/Currency (dollars in thousands)

| | <i>Balance 10/1/95</i> | <i>Net Adjustments</i> | <i>Seizures</i> | <i>Cash Adjustments</i> | <i>Remissions</i> | <i>Other Disposals</i> | <i>Forfeitures</i> | <i>Balance 9/30/96</i> |
|------------------------------------|----------------------------|----------------------------|-----------------|-----------------------------|-------------------|----------------------------|--------------------|----------------------------|
| Currency | \$1,798 | \$ 45 | \$ 679 | \$ — | \$— | \$— | \$(133) | \$2,389 |
| Other Cash | — | — | — | — | — | — | — | — |
| Other Monetary Instruments | 838 | (68) | — | 160 | — | — | — | 930 |
| Real Property | 234 | 6 | 69 | — | — | — | (198) | 111 |
| General Property, Cigarettes | 389 | (47) | 374 | — | — | — | (157) | 559 |
| General Property, Other Units | 3 | 3 | 20 | — | — | — | — | 26 |
| General Property, Liquor | 593 | 22 | 430 | — | — | — | (393) | 652 |
| General Property, Prohibited Units | — | — | — | — | — | — | — | — |
| Aircraft | — | — | — | — | — | — | — | — |
| Vehicles | 849 | (173) | 219 | — | (9) | — | (108) | 778 |
| Total | \$4,704 | \$ (212) | \$1,791 | \$160 | \$ (9) | \$— | \$(989) | \$5,445 |

FINANCIAL STATEMENTS

FY 1997 Analysis of Changes in Seized Property/Currency (number of transactions)

| | <i>Balance 10/1/96</i> | <i>Net Adjustments</i> | <i>Seizures</i> | <i>Cash Adjustments</i> | <i>Remissions</i> | <i>Other Disposals</i> | <i>Forfeitures</i> | <i>Balance 9/30/97</i> |
|------------------------------------|----------------------------|----------------------------|-----------------|-----------------------------|-------------------|----------------------------|--------------------|----------------------------|
| Currency | 107 | 3 | 52 | — | — | — | (73) | 89 |
| Other Cash | — | — | — | — | — | — | — | — |
| Other Monetary Instruments | 2 | 5 | — | — | — | — | (1) | 6 |
| Real Property | 2 | — | 12 | — | — | — | (5) | 9 |
| General Property, Cigarettes | 307 | — | 633 | — | — | — | (814) | 126 |
| General Property, Other Units | 51 | (35) | 6 | — | — | — | (9) | 13 |
| General Property, Liquor | 56 | (21) | 13 | — | — | — | (10) | 38 |
| General Property, Prohibited Units | 12,297 | (751) | 11,995 | — | (21) | (450) | (3,560) | 19,510 |
| Aircraft | — | — | — | — | — | — | — | — |
| Vehicles | 53 | (20) | 27 | — | — | — | (19) | 41 |
| Total | 12,875 | (819) | 12,738 | — | (21) | (450) | (4,491) | 19,832 |

FY 1996 Analysis of Changes in Seized Property/Currency (number of transactions)

| | <i>Balance 10/1/95</i> | <i>Net Adjustments</i> | <i>Seizures</i> | <i>Cash Adjustments</i> | <i>Remissions</i> | <i>Other Disposals</i> | <i>Forfeitures</i> | <i>Balance 9/30/96</i> |
|------------------------------------|----------------------------|----------------------------|-----------------|-----------------------------|-------------------|----------------------------|--------------------|----------------------------|
| Currency | 70 | 36 | 22 | — | — | — | (21) | 107 |
| Other Cash | — | — | — | — | — | — | — | — |
| Other Monetary Instruments | 2 | — | — | — | — | — | — | 2 |
| Real Property | 6 | (3) | 1 | — | — | — | (2) | 2 |
| General Property, Cigarettes | 8 | 88 | 218 | — | — | — | (7) | 307 |
| General Property, Other Units | 3 | 6 | 42 | — | — | — | — | 51 |
| General Property, Liquor | 14 | 24 | 27 | — | — | — | (9) | 56 |
| General Property, Prohibited Units | 5,192 | 177 | 8,916 | — | (5) | — | (1,983) | 12,297 |
| Aircraft | — | — | — | — | — | — | — | — |
| Vehicles | 58 | (14) | 17 | — | (1) | — | (7) | 53 |
| Total | 5,353 | 314 | 9,243 | — | (6) | — | (2,029) | 12,875 |

FINANCIAL STATEMENTS

Seized property may be subsequently forfeited to the Federal Government through abandonment, administrative or judicial procedures. Forfeited property consists of: monetary instruments, intangible property, real property, and tangible personal property acquired through forfeiture proceedings; property acquired by the Government to satisfy a tax liability; and unclaimed and abandoned merchandise.

Once forfeited, the property is either retained for official use by ATF, destroyed, sold, or transferred to a state, local, or federal agency or foreign government. If the forfeited property is transferred to ATF, the property then becomes an ATF asset and is included in its inventory records. All other proceeds resulting from disposition or sale of forfeited property should become assets of TFF. Forfeited property is reported in the TFF financial statements at fair market value at time of forfeiture. A valuation allowance is established for any expected payments to third party claimants. For purposes of disclosure in ATF's financial statements, forfeited property is reported at its seizure value.

All contraband (prohibited) property such as illegal firearms, ammunition, and explosives which no longer have intrinsic economic value and will not be reintroduced into the open marketplace are subject to destruction. ATF does maintain fiduciary stewardship responsibility for contraband property from time of receipt through final disposition.

The following schedules represent an analysis of the changes in forfeited property holdings for the years ended September 30, 1997 and 1996. ATF reports year-end forfeited property balances based on the most recent information from the United States Attorneys and the Federal Courts on the legal status of this property/currency. Net adjustments to previously reported balances result primarily from the receipt of updated information on the legal status of this property/currency.

NOTE 14
**Analyses of Changes
 in Seized Property/
 Currency and
 Forfeited Property**
 (Continued)

FINANCIAL STATEMENTS

FY 1997 Analysis of Disposition of Forfeited Property
(dollars in thousands)

| | <i>Balance 10/1/96</i> | <i>Net Adjustments</i> | <i>Forfeitures</i> | <i>Deposits</i> | <i>Sales</i> | <i>Transfers</i> | <i>Fair Value Adjustment</i> | <i>Balance 9/30/97</i> |
|------------------------------------|----------------------------|----------------------------|--------------------|------------------|--------------|------------------|----------------------------------|----------------------------|
| Currency | \$ 11 | \$81 | \$1,741 | \$(1,781) | \$ — | \$ — | \$— | \$ 52 |
| Other Cash | — | — | — | — | — | — | — | — |
| Other Monetary Instruments | — | — | 49 | (49) | — | — | — | — |
| Real Property | 338 | — | 217 | — | (172) | — | (55) | 328 |
| General Property, Cigarettes | 187 | — | 1,033 | — | (488) | — | — | 732 |
| General Property, Liquor | 410 | — | 262 | — | (212) | — | — | 460 |
| General Property, Other Units | 1 | 1 | 1 | — | (2) | — | — | 1 |
| General Property, Prohibited Units | — | — | — | — | — | — | — | — |
| Vehicles | 104 | (15) | 282 | — | (120) | (149) | — | 102 |
| Total | \$1,051 | \$67 | \$3,585 | \$(1,830) | \$994 | \$(149) | \$(55) | \$1,675 |
| Inventory Pending Sale | \$563 | | | | | | | \$1,623 |
| Inventory Pending Transfer | 11 | | | | | | | — |
| Total | \$574 | | | | | | | \$1,623 |

FY 1996 Analysis of Disposition of Forfeited Property
(dollars in thousands)

| | <i>Balance 10/1/96</i> | <i>Net Adjustments</i> | <i>Forfeitures</i> | <i>Deposits</i> | <i>Sales</i> | <i>Transfers</i> | <i>Fair Value Adjustment</i> | <i>Balance 9/30/97</i> |
|------------------------------------|----------------------------|----------------------------|--------------------|-----------------|----------------|------------------|----------------------------------|----------------------------|
| Currency | \$ 39 | \$— | \$133 | \$(161) | \$ — | \$ — | \$— | \$ 11 |
| Other Cash | 1 | — | — | (1) | — | — | — | — |
| Real Property | 183 | 3 | 198 | — | (46) | — | — | 338 |
| General Property, Cigarettes | 49 | — | 157 | — | (19) | — | — | 187 |
| General Property, Liquor | 76 | — | 393 | — | (59) | — | — | 410 |
| General Property, Other Units | 5 | — | — | — | (4) | — | — | 1 |
| General Property, Prohibited Units | — | — | — | — | — | — | — | — |
| Vehicles | 155 | — | 108 | — | (95) | (64) | — | 104 |
| Total | \$508 | \$ 3 | \$989 | \$(162) | \$(223) | \$(64) | \$— | \$1,051 |
| Inventory Pending Sale | \$399 | | | | | | | \$563 |
| Inventory Pending Transfer | — | | | | | | | 11 |
| Total | \$399 | | | | | | | \$574 |

FINANCIAL STATEMENTS

FY 1997 Analysis of Disposition of Forfeited Property
(number of transactions)

| | <i>Balance</i> | <i>Net</i> | | | | | | <i>Balance</i> |
|------------------------------------|----------------|--------------------|--------------------|-----------------|--------------|------------------|---------------------|----------------|
| | <i>10/1/96</i> | <i>Adjustments</i> | <i>Forfeitures</i> | <i>Deposits</i> | <i>Sales</i> | <i>Transfers</i> | <i>Destructions</i> | <i>9/30/97</i> |
| Currency | 14 | 5 | 73 | (64) | — | — | — | 28 |
| Other Cash | — | — | — | — | — | — | — | — |
| Other Monetary Instruments | — | — | 1 | (1) | — | — | — | — |
| Real Property | 5 | — | 5 | — | (1) | — | — | 9 |
| General Property, Cigarettes | 8 | — | 814 | — | (402) | — | — | 420 |
| General Property, Liquor | 11 | — | 10 | — | (9) | — | — | 12 |
| General Property, Other Units | 1 | 1 | 9 | — | (2) | — | — | 9 |
| General Property, Prohibited Units | 866 | — | 3,560 | — | — | (28) | (2,784) | 1,614 |
| Vehicles | 3 | (1) | 19 | — | (7) | (9) | — | 5 |
| Total | 908 | 5 | 4,491 | (65) | (421) | (37) | (2,784) | 2,097 |

FY 1996 Analysis of Disposition of Forfeited Property
(number of transactions)

| | <i>Balance</i> | <i>Net</i> | | | | | | <i>Balance</i> |
|------------------------------------|----------------|--------------------|--------------------|-----------------|--------------|------------------|---------------------|----------------|
| | <i>10/1/96</i> | <i>Adjustments</i> | <i>Forfeitures</i> | <i>Deposits</i> | <i>Sales</i> | <i>Transfers</i> | <i>Destructions</i> | <i>9/30/97</i> |
| Currency | 6 | — | 21 | (13) | — | — | — | 14 |
| Other Cash | 1 | — | — | (1) | — | — | — | — |
| Real Property | 4 | 1 | 2 | — | (2) | — | — | 5 |
| General Property, Cigarettes | 3 | — | 7 | — | (2) | — | — | 8 |
| General Property, Liquor | 3 | — | 9 | — | (1) | — | — | 11 |
| General Property, Other Units | 2 | — | — | — | (1) | — | — | 1 |
| General Property, Prohibited Units | 429 | — | 1,909 | — | — | (2) | (1,470) | 866 |
| Vehicles | 4 | — | 7 | — | (4) | (4) | — | 3 |
| Total | 452 | 1 | 1,955 | (14) | (10) | (6) | (1,470) | 908 |

PRINCIPAL OFFICERS

Director John W. Magaw
Deputy Director Bradley A. Buckles
Chief Counsel Stephen J. McHale
Assistant Director (Field Operations) Andrew L. Vita
Assistant Director (Firearms, Explosives and Arson) Jimmy Wooten
Assistant Director (Alcohol and Tobacco) Arthur J. Libertucci
Assistant Director (Inspection) Richard J. Hankinson
Assistant Director (Liaison and Public Information) Patrick D. Hynes
Assistant Director (Management)/CFO William T. Earle
Assistant Director (Science and Technology)/CIO Patrick R. Schambach
Assistant Director (Training and Professional Development) Gale D. Rossides

For additional information
contact:

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

(202) 927-8500

Internet Address
(<http://www.atf.treas.gov>)