

Financial Results, Position and Condition

Overview of Financial Data

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

A number of enhancements were made during FY 1999 to comply fully with the Chief Financial Officers Act of 1990, the Government Management Reform Act of 1994, the Government Performance and Results Act of 1993, the Debt Collection Improvement Act of 1996, the Federal Managers' Financial Integrity Act of 1982, the Federal Financial Management Improvement Act of 1996, and a number of GSA-mandated travel regulation changes. ATF completed its financial system conversion from a mainframe to client-server environment. The Bureau converted all ATF cardholders to a new Treasury-wide credit card program, standardized its expenditure categories to meet Treasury-wide requirements, and enhanced its cost accounting to incorporate payroll expenditures down to Bureau programs and project levels.

In recent years, ATF has made significant progress in implementing Federal financial management reforms and incorporating advances in information management technology into its processes. As a result of these actions, ATF is again pleased with an unqualified audit opinion from PricewaterhouseCoopers LLP for FY 1999.

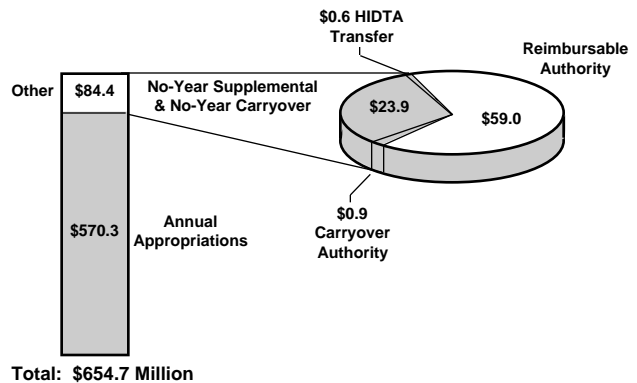
Budget Integrity

Sources of Funds

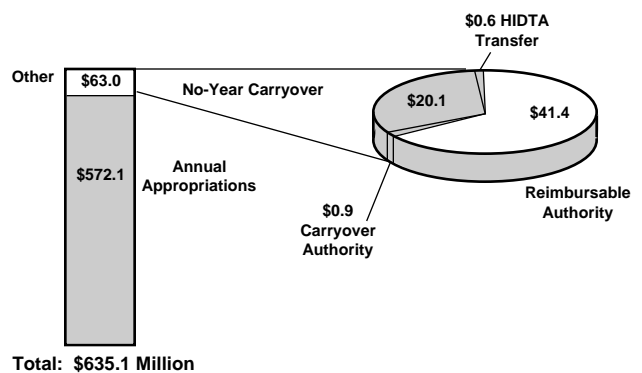
The total budget authority available for use by ATF in FY 1999 was \$635.1 million. Of that amount, the Congress appropriated \$541.6 million for the Bureau's Salaries and Expenses Fund and \$16.0 million for the Violent Crime Reduction Trust Fund. The Bureau received supplemental funding of \$14.5 million for the Y2K compliance efforts. An additional \$63.0 million was made available from other sources. These other sources included the following: no-year carryover funds of \$20.1 million; appropriation transfers of \$.6 million from the Office of National Drug Control Policy to

support ATF efforts in High Intensity Drug Trafficking Areas (HIDTA); \$41.4 million in reimbursable authority from other Government agencies; and \$.9 million, which represent 50 percent of the FY 1998 unobligated balance. Additionally, \$4.5 million was redirected from the Salaries and Expenses fund into the Violent Crime Reduction Trust Fund to support expansion of the National Tracing Center.

**Sources of Funds
FY 1998**
(Dollars in Millions)



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



Uses of Funds

ATF incurred obligations of \$612.3 million during FY 1999. Of the \$21.9 million in budget authority that was not obligated in FY 1999, \$5.4 million represents the Bureau's Salaries and Expenses; \$.09 million represents HIDTA funding and funding available from prior-year carryover of unobligated balances; and \$16.4 million represents no-year appropriation carryover funds available for use in FY 2000. Additionally, \$.03 million was transferred to the Department in support of the Honors Attorney Program and \$0.8 million represents the rescission of No-year funding.

In FY 1999, the Bureau's full-time equivalent (FTE) level increased by 348 FTE. This increase was the basis for a corresponding increase in salaries and benefits, and fixed costs; thus, a decrease in operational costs.

**Uses of Funds
FY 1998**
(Dollars in Millions)



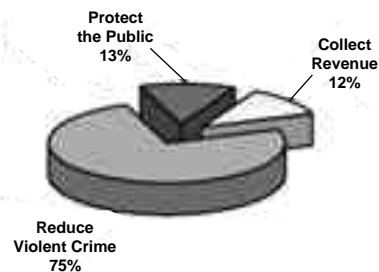
**Uses of Funds
FY 1999**
(Dollars in Millions)



Cost Accounting and Performance Measurement

ATF continued its multi-year effort to develop and implement a Bureau-wide planning and reporting framework in the cost accounting and performance measurement area. In FY 1998, ATF implemented a new cost structure and laid the groundwork to standardize the cost structure for all Bureau systems that capture resource data. This new framework was also utilized in developing ATF's FY 2000 and 2001 budget submissions. The new framework links strategic planning, budgeting, and program planning into a single, integrated package, permitting the Bureau to improve formulation and execution of its programs. During FY 1999, the Bureau furthered its implementation of Cost Accounting requirements by having employees directly charge their time against the Bureau's activities at the project level in a new standardized time reporting format. Ongoing efforts include refining definitions of performance measures, finalizing a long-term costing methodology, and implementing an operational cost accounting pilot. Within the financial management operation, key performance indicators were developed with the intention of establishing its first published annual performance plan for FY 1999.

**Cost by Activity
FY 1998**



**Cost by Activity
FY 1999**



Financial Performance

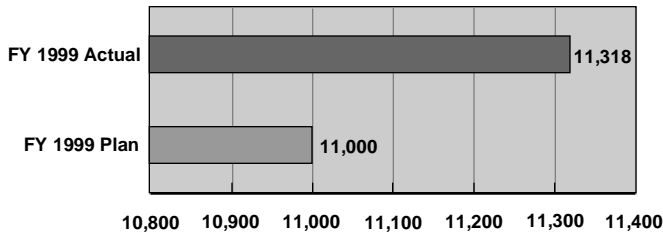
ATF has published its first annual financial management performance plan which contains key financial performance indicators and continues to refine the indicators. There are three major activities identified in ATF's Financial Management Performance Plan. These activities are: 1) Provide leadership to promote the acquisition and management of ATF's resources, revenue, and assets; 2) provide quality financial services; and, 3) provide financial information on ATF operations which supports reporting and decision making. Strategic goals, annual performance goals, and measures were developed to achieve these three financial management activities. Several of the key goals and measures in the FY 1999 Financial Management Performance Plan are displayed below.

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

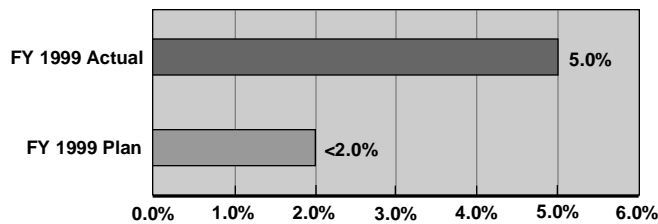
Strategic Goal: Focus on customer service and innovate financial processes.

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

Performance Measure: Number of commercial bills paid.



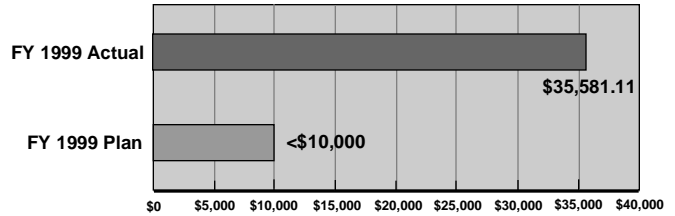
Performance Measure: Percentage paid late.



In FY 1999, the Bureau's annual delinquent rate increased to 5.0 percent, up from 3.9 percent in FY 1998 due to a complete restructuring of its accounting classification coding to support the

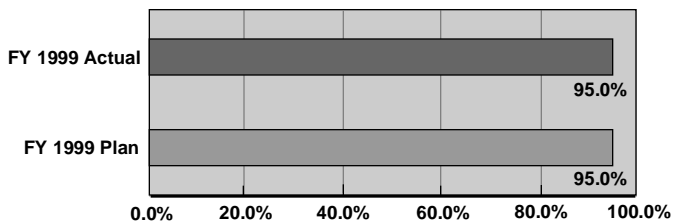
Bureau's Field Operations restructuring. The Treasury benchmark is 2 percent which ATF will strive to meet in FY 2000.

Performance Measure: Dollar amount of interest paid.



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

Performance Measure: Percentage of vendors paid via EFT.



Note: Total number of vendor payments in FY 1999 was 6,191.

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

Strategic Goal: Provide complete and accurate financial statements.

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

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

1999 Plan: Unqualified Opinion
1999 Actual Results: Unqualified Opinion

Cash Management

ATF is complying with existing cash management laws and regulations and is aggressively working to enhance its cash management policies and opera-

tions through the implementation of new or improved technologies. Its activities in the cash management area are detailed below:

- **Prompt Payment Act (PPA) Compliance.** The PPA requires the Federal Government to make vendor payments timely, with interest penalties for late payments and discounts for approved accelerated payments. In FY 1999, the Bureau's annual delinquent rate increased to 5.0 percent, up from 3.9 percent in FY 1998 due to a complete restructuring of its accounting classification coding to support the Bureau's Field Operations restructuring. The Treasury benchmark is 2 percent which ATF will strive to meet in FY 2000.
- **Debt Collection Improvement Act Compliance.** This act requires the use of electronic funds transfer for all Federal payments made after January 1, 1999.

Vendor payments: In FY 1999, ATF had paid 95 percent of its vendors electronically which represents a 15 percent increase over 80 percent in FY 1998.

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

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

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

- **Credit Cards.** In FY 1999, ATF implemented the new governmentwide credit card program, with Citibank as its vendor and MasterCard as its brand. ATF has over 2,800 purchase cardholders who use the card primarily for small purchases (under \$2,500); however, ATF's procurement staff can and does use the card for higher dollar amount purchases. Over 3,300 ATF employees travel on official business and have received travel cards in accordance with the Travel and Transportation Act of 1998.
- **Imprest Funds.** ATF closed all miscellaneous imprest funds nation-wide at the end of FY 1999 and is encouraging employees to use the purchase card whenever possible. To cover those situations where a merchant will not accept the purchase card, selected cardholders in each field division will have the authority to use convenience checks which are issued against the individual's purchase card.

Limitations of the Financial Statements

The financial statements were prepared to report the financial position and results of operations pursuant to the requirements of 31 U.S.C. 3515(b). The statements have been prepared from the books and records of ATF according to formats prescribed by the Office of Management and Budget. The statements are in addition to the financial reports used to monitor and control budgetary resources prepared from the same books and records. The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity. One implication of this is that liabilities cannot be liquidated without legislation that provides resources to do so.

Management Responsibilities

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

Systems and Controls

Financial Systems

The Bureau's systems modernization efforts are designed to improve the effectiveness and efficiency of financial data processing and reporting capabilities. Planned improvements to the Bureau's financial systems address integrating all financial-related systems and establish direct links between program costs and performance measures. The discussion of the Bureau's financial system conversion can be found under the section, Major Infrastructure Challenges Facing ATF.

The following were financial management system accomplishments in FY 1999:

- ☛ Created Office of Management steering committee to oversee integration of systems;
- ☛ Designed, implemented, and conducted training for over 250 users;
- ☛ Designed and executed the conversion of five years of historical data;
- ☛ Re-engineered business processes to reduce paper;
- ☛ Selected an off-the-shelf software application that integrated with existing office automation tools;
- ☛ Designed a system architecture that took advantage of the Bureau's current technology infrastructure;
- ☛ Modified the Standard Time and Attendance System (STATS) and the payroll interface to implement payroll costs by program and project in last quarter;
- ☛ Developed a five-year financial management system strategic plan with the objectives to:
 - Create a paperless financial process environment through re-engineering and standardizing;
 - Integrate all financial and mixed financial systems;
 - Take advantage of all E-Commerce technology.

FY 2000 Plans:

- ☛ Configure new cost management subsystem;
- ☛ Complete baseline implementation, including:
 - Payroll Interface;
 - Additional Reports;
- ☛ Begin integration of core financial system with ATF's stand-alone property system;
- ☛ Purchase, configure, and interface new budget formulation sub-system;
- ☛ Pilot stand alone Travel Manager in Bureau program offices;
- ☛ Automate Permanent Change of Station (PCS) function in Headquarters using Travel Manager;
- ☛ Build Travel Manager interface to core financial system;
- ☛ Select one of the two Grant Management Systems in compliance with the Government-wide CFO Council.

Integrated Tax Collection System

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

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

FY 1999 accomplishments:

- ☛ Deployed Y2K compliant client-server based applications to replace mainframe systems for Federal Excise Tax and Floor Stocks Tax; and
- ☛ Updated the document imaging system for tax returns and other reports filed with the National Revenue Center in Cincinnati to a Y2K compliant version.

FY 2000 plans:

As the financial system conversion 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.

Federal Managers' Financial Integrity Act (FMFIA) Summary

Annual Assurance Statement for FY 1999

ATF management controls are established in accordance with standards required by Section 2 of the Federal Managers' Financial Integrity Act (FMFIA) and provide reasonable assurance that (1) our programs are achieving their intended results; (2) resources are used in a manner that is consistent with our mission; (3) assets are protected from fraud, abuse, waste, and mismanagement; and (4) laws and regulations are followed. There is reasonable assurance that the financial system for the Bureau is in conformance with Government-wide financial information standards as well as financial system functional standards for FY 1999 in accordance with Section 4 of the FMFIA. The Bureau is in substantial compliance with the requirements of the Federal Financial Management Improvement Act (FFMIA) of 1996. Specifically, ATF has implemented and maintained financial systems that comply substantially with Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level.

FMFIA Highlights

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



Members of ATF's CFO Steering Committee from left to right include the Assistant Financial Manager (Accounting); Deputy Assistant Director (Inspection); Deputy Assistant Director (Firearms, Explosives and Arson); Chief, Strategic Planning Office; Financial Manager/Deputy CFO; Deputy Assistant Director (Science and Technology); and the Deputy Assistant Director (Liaison and Public Information). Missing from the picture are the Deputy Chief Counsel; Executive Assistant, Field Operations; Deputy Assistant Director (Alcohol and Tobacco); Deputy Assistant Director (Management); and the Deputy Assistant Director (Training and Professional Development).

1999 FMFIA STATUS

ATF's FY 1999 annual statement of assurance indicated that the Bureau could reasonably assure that:

- (1) obligations and costs are in compliance with applicable laws and assets are safeguarded;

- (2) operational revenues and expenditures are properly recorded and accounted for; and
- (3) accounting systems conform to the Comptroller General's accounting principles and standards.

The reasonable assurance was based on the Bureau's continued effort to improve its systems of management controls and aggressive steps to improve automated systems. No FMFIA deficiencies were identified during FY 1999.

Policies and Procedures

In FY 1999, the Bureau actively pursued corrective actions to address conditions in the FY 1996 audit and reported again in FY 1997 and FY 1998 by PricewaterhouseCoopers LLP:

ATF Should Improve Controls Over Segregation of Duties
(Formerly identified as Enhance Controls Over the Information Security Management Function)

Status and Accomplishments: In process. ATF designated a contractor as a backup to perform systems programming duties. A security administrator was assigned to perform basic access/administration duties to segregate and offload those functions from systems programming. In addition, basic system software management procedures for all major changes are being implemented to provide controls through the end of the mainframe's anticipated life cycle on December 1999. ATF is currently in the process of migrating its mainframe application systems to a client-server environment. Procedures include weekly status reports on system programming activities that are submitted monthly to the COTR for re-

view. Respective application system owners are responsible for all phases of normal transaction processing.

ATF Can Further Strengthen Controls to Protect Its Information
(Formerly identified as Continue to Improve Effectiveness of Access Control Software and Evaluate Telecommunications Security Risks)

Status and Accomplishments: In process. Due to the sensitive nature of this specific finding, ATF is unable to address publicly the corrective action taken.

ATF Needs to Accelerate Efforts to Implement Its Program Change Control Process

Status and Accomplishments: In process. ATF drafted policy for Enterprise Configuration Management and the charter for the Enterprise Change Management Council (ECMC), which have been approved for implementation by the Bureau's CIO. The implementation plan was developed. Training for ATF personnel to use the new procedures is underway.

Monthly Accountability Plan

The Monthly Accountability Plan (MAP) continued in FY 1999 as a reporting mechanism used to monitor critical, key activities that must be accomplished in order to achieve an efficient and effective integrated financial management process. Included in the MAP are data on key operating duties and indicators, such as account reconciliations, system assurance, financial reporting, and workload statistics.



Auditor's Report on Financial Statements

PRICEWATERHOUSECOOPERS 

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REPORT OF INDEPENDENT ACCOUNTANTS

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

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

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. 98-08, *Audit Requirements of 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.

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

Our audit was conducted for the purpose of forming an opinion on the financial statements referred to above, taken as a whole. The "Overview of the Reporting Entity" section is presented for the purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 21, 2000 on our consideration of ATF's internal control and a report dated January 21, 2000 on its compliance with laws and regulations.



January 21, 2000
Arlington, Virginia



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REPORT OF INDEPENDENT ACCOUNTANTS ON INTERNAL CONTROL

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

We have audited the Principal Statements (hereinafter referred to as "financial statements") of the Bureau of Alcohol, Tobacco and Firearms (ATF) as of and for the year ended September 30, 1999, and have issued our report thereon dated January 21, 2000.

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. 98-08, *Audit Requirements for Federal Financial Statements*, as amended.

The management of ATF is responsible for establishing and maintaining accounting systems and internal control. 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 internal control 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 acquisition, 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) transactions and other 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, errors or fraud may nevertheless occur and not be detected. Also, projection of any evaluation of internal control to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements of ATF for the year ended September 30, 1999, we obtained an understanding of the design of significant internal control 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 internal control. Accordingly, we do not express such an opinion.



Report on Internal Control
Page 2

With respect to internal control relevant to data that support reported performance measures, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions, as required by OMB Bulletin 98-08, as amended. Our procedures were not designed to provide an opinion on internal control over reported performance measures, and, accordingly, we do not express such an opinion.

We noted certain matters in internal control 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. 98-08, as amended. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the entity's ability to meet the internal control objectives described above.

During 1999, ATF made improvements in each of the three areas noted in last year's internal control report. However, all three areas continue to have weaknesses requiring further corrective actions, as noted in the following sections.

ATF Can Further Strengthen Controls to Protect Its Information

Last year's audit identified that ATF had a number of access control weaknesses within its financial information systems. Over the past year ATF made progress addressing these issues. For example, certain weaknesses associated with dial-in security and mainframe security settings have been remedied. However, other weaknesses continue to exist in both ATF's mainframe and client server environments. Because of the sensitive nature of these findings, details and recommendations for correcting these weaknesses will be presented in a separate, limited-distribution management letter to ATF.

ATF Can Further Strengthen Its System Change Control Process

As reported under the heading in last year's report, *ATF Needs to Accelerate Efforts to Implement Its Program Change Control Process*, ATF had developed a set of policies and procedures for controlling computer program code changes and placing the changes into production. At that time, however, the procedures were in draft form and had not been formally approved or disseminated. During fiscal year 1999, ATF formalized and disseminated procedures and conducted training concerning these issues for the new client server environment implemented for fiscal year 2000. We noted that these procedures did not adequately address two major issues in the current mainframe environment: (1) documenting the tracking of changes and (2) establishing responsibility for moving changes into production. As a result of these weaknesses, unauthorized changes could have been made in the environment under audit. We recommend that ATF monitor all subsequent mainframe changes until the new environment and all associated applications are fully implemented. ATF then should enforce the following existing procedures for the new environment:

- Use version control software to track changes to production computer program code.
- Have the change management team move changes into production.



Report on Internal Control
Page 3

ATF Should Improve Controls Over Segregation of Duties

As reported last year, a systems programmer working for an ATF contractor had primary responsibility for incompatible duties such as maintaining the security software, processing and approving system changes, and performing programmer duties. Furthermore, the systems programmer's work was not adequately monitored or reviewed by ATF personnel.

This condition continued during fiscal year 1999 because existing ATF personnel resources were dedicated to addressing Year 2000 issues and the financial system conversion. Also, ATF management determined that it was not cost effective to train or hire personnel to monitor a system that was planned for replacement. However, we noted that the migration of critical applications from the mainframe environment is lasting longer than anticipated. The continuation of this environment and the lack of duty segregation increases the potential for unauthorized changes and other improper system related activities. Therefore, we recommend that ATF monitor the changes made by the systems programmer and document the monitoring activities until the mainframe is completely replaced.

In addition, as we noted last year, administration and user duties were not properly segregated for applications such as Federal Excise Tax (revenue subsidiary system), Financial Management Information System (general ledger system), and Property Plus (property subsidiary system). Security and systems administrators were approving transactions, processing transactions, and reviewing their own corrections. Since last year, improvements have been made concerning each of these applications. For example, the number of Property Plus users with administrator privileges was reduced, and monitoring was instituted for Federal Excise Tax system administrators performing transactions. However, the same segregation problem exists with the Procurement Desktop application, a major financial application reviewed by us for the first time this year. This condition occurred because policies and procedures were not established for Procurement Desktop to adequately segregate incompatible duties. Proper segregation of duties helps to prevent the unauthorized processing of transactions and/or corrections. We recommend that ATF establish Procurement Desktop-specific policies and procedures to segregate users' transaction processing responsibilities, including the approving, processing, reviewing, and correcting of transactions, from system security/administration tasks. We further recommend that ATF review all of its new and existing applications not already covered by our review for segregation of incompatible duties and take appropriate action to resolve any issues identified.

* * *

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



Report on Internal Control
Page 4

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe none of the fiscal year 1999 reportable conditions described above is a material weakness.

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

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

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

January 21, 2000
Arlington, Virginia



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**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 Principal Statements (hereinafter referred to as "financial statements") of the Bureau of Alcohol, Tobacco and Firearms (ATF) as of and for the year ended September 30, 1999, and have issued our report thereon dated January 21, 2000.

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. 98-08, *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. 98-08, as amended, including the requirements referred to in the Federal Financial Management Improvement Act (FFMIA) of 1996.

The results of our tests of compliance with laws and regulations described in the preceding paragraph exclusive of FFMIA disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards* and OMB Bulletin 98-08, as amended.

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 included in Appendix D of OMB Bulletin No. 98-08, as amended.

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.



Report on Compliance with Laws and Regulations
Page 2

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 such an opinion.

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

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

January 21, 2000
Arlington, Virginia