



BUREAU OF ALCOHOL, TOBACCO, FIREARMS AND EXPLOSIVES ANNUAL FINANCIAL STATEMENTS FISCAL YEAR 2011

U.S. Department of Justice
Office of the Inspector General
Audit Division

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February 2012

BUREAU OF ALCOHOL, TOBACCO, FIREARMS AND EXPLOSIVES ANNUAL FINANCIAL STATEMENTS FISCAL YEAR 2011

OFFICE OF THE INSPECTOR GENERAL COMMENTARY AND SUMMARY

This audit report contains the Annual Financial Statements of the Bureau of Alcohol, Tobacco, Firearms and Explosives (ATF) for the fiscal years (FY) ended September 30, 2011, and September 30, 2010. Under the direction of the Office of the Inspector General (OIG), Cotton & Company LLP performed the ATF's audit in accordance with U.S. generally accepted government auditing standards. The audit resulted in an unqualified opinion on the FY 2011 financial statements. An unqualified opinion means that the financial statements present fairly, in all material respects, the financial position and the results of the entity's operations in conformity with U.S. generally accepted accounting principles. For FY 2010, ATF also received an unqualified opinion on its financial statements (OIG Report No. 11-13).

Cotton & Company LLP also issued reports on internal control over financial reporting and on compliance and other matters. The auditors identified one significant deficiency in internal control in the FY 2011 *Independent Auditors' Report on Internal Control over Financial Reporting*. The significant deficiency related to weaknesses in review and oversight of financial reporting. Specifically, ATF needs to improve its oversight of reconciliations of general ledger accounts, reviewing transactions, and analyzing account balances to ensure the accuracy of its financial statements. Additionally, no instances of non-compliance with applicable laws and regulations, and the *Federal Financial Management Improvement Act of 1996* were identified during the audit in the FY 2011 *Independent Auditors' Report on Compliance and Other Matters*.

The OIG reviewed Cotton & Company LLP's reports and related documentation and made necessary inquiries of its representatives. Our review, as differentiated from an audit in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on ATF's financial statements, conclusions about the effectiveness of internal control, conclusions on whether ATF's financial management systems substantially complied with the *Federal Financial Management Improvement Act of 1996*, or conclusions

on compliance with laws and regulations. Cotton & Company LLP is responsible for the attached auditors' reports dated November 4, 2011, and the conclusions expressed in the reports. However, our review disclosed no instances where Cotton & Company LLP did not comply, in all material respects, with U.S. generally accepted government auditing standards.

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FIREARMS AND EXPLOSIVES
ANNUAL FINANCIAL STATEMENTS
FISCAL YEAR 2011**

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Management's Discussion and Analysis

Unaudited

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**U. S. Department of Justice
Bureau of Alcohol, Tobacco, Firearms and Explosives
Management's Discussion and Analysis
(unaudited)**

MISSION

We are ATF.

ATF is a unique law enforcement agency in the United States Department of Justice that protects our communities from violent criminals, criminal organizations, the illegal use and trafficking of firearms, the illegal use and storage of explosives, acts of arson and bombings, acts of terrorism, and the illegal diversion of alcohol and tobacco products.

We partner with communities, industries, law enforcement, and public safety agencies to safeguard the public we serve through information sharing, training, research, and use of technology.

VISION

We Are ATF - A dedicated team securing America's future by accomplishing a critical mission today.
We Protect America.

We Protect Your Community.

VALUES

We value our people and those we serve.

We value professionalism, integrity, diversity, commitment, innovation, and excellence.

We value partnerships that promote the safety of our communities.

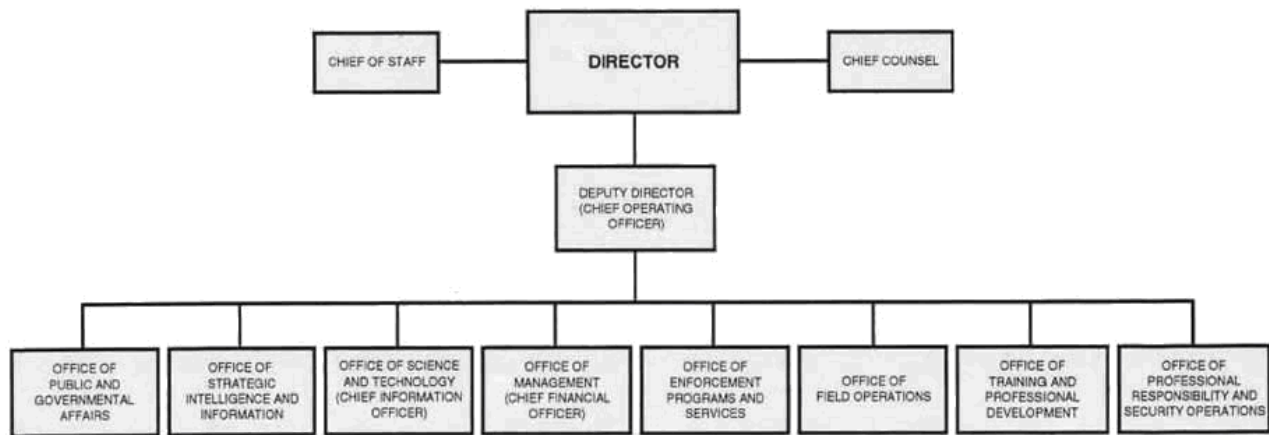
ORGANIZATIONAL STRUCTURE

ATF's national headquarters, located in Washington, DC, includes offices that develop major policies and programs in accordance with the applicable laws and regulations that ATF enforces. ATF's executive structure consists of the Deputy Director, Chief Counsel, Chief of Staff, and the Assistant Directors for Field Operations; Enforcement Programs and Services; Strategic Intelligence and Information; Professional Responsibility and Security Operations; Public and Governmental Affairs; Management/Chief Financial Officer; Science and Technology/Chief Information Officer; and Human Resources and Professional Development (formerly Training and Professional Development). These executives form the Bureau's Strategic Leadership Team, which oversees and approves large investments such as buildings, relocations, IT investments, and equipment. The Offices of the Chief of Staff, Ombudsman, the Executive Assistant for Equal Opportunity, Disclosure Office, and the Office of Strategic Management are key components of the Office of the Director.

ATF has offices throughout the United States, including Puerto Rico, the Virgin Islands and Guam. ATF also has a presence at U.S. embassies in El Salvador, Colombia, Mexico, and Canada; U.S. Consular offices in Tijuana, Ciudad Juarez, Hermosillo, Guadalajara and Monterrey, Mexico; Interpol Headquarters in Lyon, France; and at Europol in The Hague, Netherlands, to address the trafficking of firearms, explosives, alcohol, and tobacco. ATF has several employees in Iraq providing explosives technical support for the US Embassy, Baghdad, and the Department of Defense. The field structure is comprised of 25 field divisions strategically located throughout the United States, with a single executive heading each office and having responsibility for all law enforcement and industry regulation within the geographical area.

ATF ORGANIZATION CHART

BUREAU OF ALCOHOL, TOBACCO, FIREARMS AND EXPLOSIVES



Approved by:  _____ Date: 10-17-05
 ALBERTO GONZALES
 Attorney General

FINANCIAL STRUCTURE

ATF's primary funding source is an annual appropriation, which funds salaries, operating expenses, property and equipment, as authorized by law. ATF may also receive appropriations to cover specific needs, such as expenses incurred as the result of the relocation of law enforcement frequencies in the radio spectrum, and construction of the National Center for Explosives Training and Research; however, these appropriations are situational in nature and occur as the need arises. In addition, ATF has agreements with other Federal entities, including the Department of Justice Assets Forfeiture Fund, to reimburse authorized ATF expenses.

ATF's central budget office allocates funding among the directorates which are responsible, along with a central budget office, for expending against this funding.

ANALYSIS OF FINANCIAL STATEMENTS

ATF prepares the principal financial statements required by OMB Circular A-136, *Financial Reporting Requirements*.

The Consolidated Balance Sheet is a presentation of ATF's assets, liabilities, and net position as of the end of the fiscal year. Assets represent the amounts of future economic benefits that are owned or managed by the Bureau. Liabilities are the amounts that are owed by the Bureau and net position comprises the unexpended appropriations and the cumulative results of operation.

Total assets as of September 30, 2011 and 2010, were \$556.7 and \$561.7 million, respectively with a decrease of approximately 1.0 percent. The Fund Balance with the Treasury represents approximately 43.4 percent of assets in FY 2011 and 46.5 percent in FY 2010.

Total liabilities as of September 30, 2011 and 2010, were \$352.3 million and \$330.3 million, respectively. The increase of \$22.0 million or 6.7 percent is primarily due to increase in liabilities from undercover operations of \$18.5 million and an increase in the FECA Actuarial liability of \$3.7 million.

The Consolidated Statement of Net Cost presents the gross operating costs and any related exchange revenue for the reporting period. The bottom line is the net cost to operate and run the Bureau programs for the fiscal year. ATF records the full cost of all transactions, including imputed costs absorbed by other entities. The net costs of operations as of September 30, 2011 and 2010 were \$1,182.4 million and \$1,181.9 million, respectively, an increase of approximately \$.5 million.

The Consolidated Statement of Changes in Net Position presents both the net cost of operations and how those costs were financed, whether from appropriations, transfers, or imputed financing. Unexpended appropriations as of September 30, 2011 and 2010 were \$174.2 million and \$202.2 million, respectively, the decrease is approximately 13.8 percent. The Net Position as of September 30, 2011 and 2010 was \$204.4 million and \$231.4 million, respectively, with a decrease of approximately 11.7 percent. The FY 2011 appropriations decreased by \$43.5 million or 3.8 percent.

The Combined Statement of Budgetary Resources presents how resources are received by ATF, whether through appropriations, other authorities, or reimbursements and recoveries. The Combined Statement of Budgetary Resources also provides the status of those resources, the amount that is obligated, and whether the source of those obligations is direct or reimbursable funds. Obligations incurred as of September 30, 2011 and 2010 were \$1,260.4 million and \$1,258.1 million, respectively or an increase of approximately .2 percent.

The Combined Statement of Custodial Activity presents non-exchange revenue consisting of fees and licenses that ATF collects and distributes. Non-exchange revenues are unavailable for use by ATF and are transferred to the General Fund of the Treasury. The primary sources of these collections are firearms and explosive licenses and import fees. The total custodial revenue as of September 30, 2011 and 2010 was \$21.4 million and \$14.7 million, respectively. The increase of approximately 45.6 percent is primarily due to an increase in the application volume, and related payments, for National Firearms Act (NFA) transfers and/or registration of NFA class weapons as well as funds from undercover operations.

**Table 1. Source of ATF Resources
(Dollars in Thousands)**

Source	FY 2011	FY 2010	Change%
Earned Revenue	\$ 91,300	\$ 91,159	0%
Budgetary Financing Sources			
Appropriations Received	1,114,772	1,158,272	-4%
Appropriations Transferred-In/Out	(7,892)	(3,318)	138%
Other Adjustments and Other Budgetary Financing Sources	(2,231)	-	-100%
Other Financing Sources			
Transfers-In/Out Without Reimbursement	3,153	2,407	31%
Imputed Financing from Costs Absorbed by Others	47,544	39,264	21%
Total	\$ 1,246,646	\$ 1,287,784	-3%

**Table 2. How ATF Resources are Spent
(Dollars in Thousands)**

Strategic Goal (SG)	FY 2011	FY 2010	Change%
SG 1: Prevent Terrorism and Promote the Nation's Security			
<i>Net Cost</i>	\$ 5,649	\$ 7,185	-21%
SG 2: Prevent Crime, Enforce Federal Laws, and Represent the Rights and Interests of the American People			
<i>Gross Cost</i>	1,268,049	1,265,934	
Less: Earned Revenue	91,300	91,159	
<i>Net Cost</i>	1,176,749	1,174,775	0%
Total Gross Cost	1,273,698	1,273,119	
Less: Total Earned Revenue	91,300	91,159	
Total Net Costs of Operations	\$ 1,182,398	\$ 1,181,960	0%

2011 Financial Highlights

ATF activities primarily support the Department's goal to Prevent Crime, Enforce Federal Laws, and Represent the Rights and Interests of the American People. However, many of our core activities, including ATF participation on task forces to prevent terrorism, also support the Department's goal to Prevent Terrorism and Promote the Nation's Security.

STRATEGIC GOAL 1: Prevent Terrorism and Promote the Nation's Security, .5 percent of ATF's Net Costs support this Goal, which includes ATF activity in the Joint Terrorism Task Force and the Terrorist Device Analysis Center. The Goal 1 net cost for FY 2011 and FY 2010 were \$5.6 million and \$7.2 million, respectively, a decrease of approximately 21.4 percent, which comprises only .5 percent of total net cost and therefore is not material in nature.

STRATEGIC GOAL 2: Prevent Crime, Enforce Federal Laws, and Represent the Rights and Interests of the American People, 99.5 percent of ATF's Net Costs support this Goal, which includes all ATF activities except those reported in Strategic Goal 1. The Goal 2 net costs for FY 2011 and FY 2010 were \$1,176.7 million and \$1,174.8 million, respectively, an increase of approximately .2 percent. This increase is not material in nature.

PERFORMANCE INFORMATION

Data Reliability And Validity

The ATF views data reliability and validity as critically important in the planning and assessment of performance. As such, this document includes a discussion of data validation, verification, and any identified data limitations for each performance measure presented. ATF ensures that data reported meets the following criteria:

At a minimum, performance data are considered reliable if transactions and other data that support reported performance measures are properly recorded, processed, and summarized to permit the preparation of performance information in accordance with criteria stated by management. Performance data need not be perfect to be reliable, particularly if the cost and effort to secure the best performance data possible will exceed the value of any data so obtained.

FY 2011 REPORT ON SELECTED RESULTS

STRATEGIC GOAL 2: Prevent Crime, Enforce Federal Laws and Represent the Rights and Interests of the American People 99.5% of ATF's Net Costs support this goal.

PROGRAMS: Illegal Firearms Trafficking; Firearms Criminal Possession and Use; Criminal Groups and Gangs; Firearms Industry Operations

Background/Program Objectives: Violent firearms crime remains a significant and complex domestic problem, fueled by a variety of causes that vary from region to region. The common element, however, is the relationship between firearms violence and the unlawful diversion of firearms out of commerce into the hands of prohibited persons. ATF's unique statutory responsibilities and assets, including technology and information, are focused under the agency's Integrated Violence Reduction Strategy (IVRS) to remove violent offenders, including gang members, from our communities; keep firearms from those who are prohibited by law from possessing them; discourage, prohibit, and interrupt illegal weapons transfers in accordance with the law; and prevent firearms violence through community outreach.

The violence fueled by firearms trafficking is demonstrated in the crisis on our Southwest Border. Our firearms trafficking interdiction strategy complements our continued focus on the deployment of resources to specific localities where there is a high incidence of gang and gun violence. Through firearms trafficking interdiction efforts, ATF decreases the availability of illicit firearms and recommends for prosecution of those who illegally supply firearms to prohibited possessors. Violent gang members are often involved in firearms trafficking, both for potential profit and in furtherance of drug trafficking and other crimes. Recent trends have shown an increase in the number of firearms recovered in Mexico, and these firearms fuel the growing violence along the border, including the brutal murders of hundreds of law enforcement officers and government officials. ATF's efforts to reduce violent firearms crime include:

- ATF's Southwest Border initiative, Project Gunrunner, is a focused subset of ATF's broader firearms trafficking initiative, addressing U.S.-based firearms trafficking that is fueling the violence along the Southwest Border and nationwide. Project Gunrunner attacks the prevalence of illegal firearms available in the Southwest Border region and stems the flow of firearms to criminal organizations in Mexico. Additionally, ATF enhances its efforts along the Southwest Border with an integrated violent crime and gang reduction program with initiatives like the Violent Crime Impact Teams and Regional Area Gang Enforcement Teams.
- Partnering with law enforcement agencies and prosecutors at all levels to develop focused strategies to investigate, arrest, and prosecute violent offenders, persons prohibited from possessing firearms, domestic and international firearms traffickers, violent gangs, and others who attempt to illegally acquire or misuse firearms.

- Assisting the law enforcement community in identifying firearms trafficking trends and resolving violent crimes by providing automated firearms ballistics technology, tracing guns used in crimes, and developing advanced firearms investigative techniques.
- Ensuring that only qualified applicants who meet the eligibility requirements of the law enter the regulated firearms industry by employing appropriate screening procedures prior to licensing.
- Inspecting firearms dealers to identify any illegal purchases or diversion of firearms to criminals and to ensure the accuracy of records used in tracing firearms. ATF ensures that firearms industry members comply with the Gun Control Act, the National Firearms Act, and the Arms Export Control Act.
- Keeping restricted firearms such as machine guns out of the hands of prohibited persons by performing criminal records checks on applicants. ATF maintains the accuracy and integrity of the National Firearms Registration and Transfer Record so that the location and ownership of restricted firearms are kept current.
- Ensuring that only firearms that are legally importable under ATF and State Department rules are imported into the United States and are properly marked and recorded by the importer for sale domestically.
- Collaborating with schools, law enforcement agencies, community organizations, and the firearms industry to implement educational programs which help to reduce firearms violence.
- Informing the public and firearms industry about ATF policies, regulations, and product safety and security, so that they can better comply with the law. To do so, ATF uses a variety of communication methods such as the Internet, trade and community publications, seminars, and industry meetings.

The following represent examples of ATF's success in support of Strategic Goal 2:

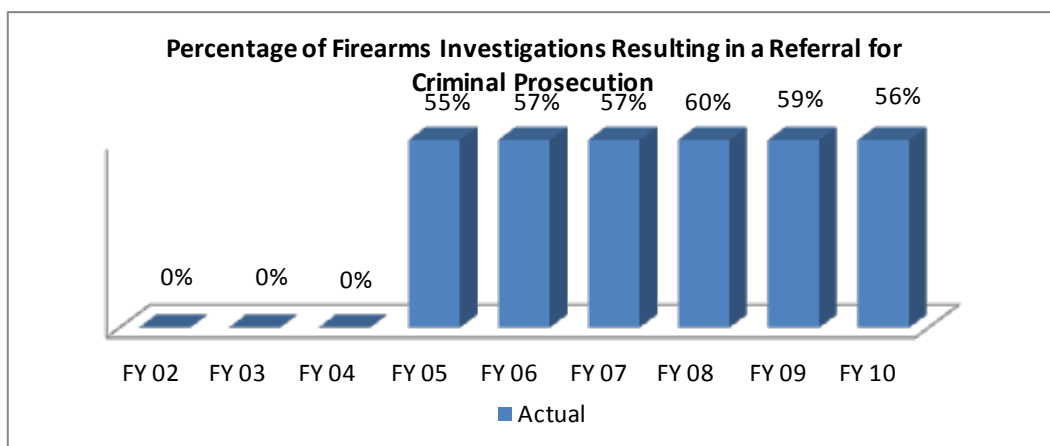
- In FY 2011, ATF collected approximately \$17.4 million dollars in license fees, registration fees, Special Occupational Tax Stamps, and National Firearms Act taxes. This amount does not include fines, penalties and restitutions and is net of refunds.
- In FY 2011, ATF recommended 11,257 criminal cases against 18,790 defendants for prosecution – 1,590 of those cases involve 5,206 defendants engaged in gang related criminal conduct. Of the defendants recommended for prosecution, nearly 60% are previously convicted felons and 82% have prior arrest records.
- In addition, in FY 2011, ATF arrested 9,368 defendants, which led to 10,772 indictments and 7,337 convictions. As a result, 6,201 defendants were sentenced to prison in FY 2011 and received an average sentence of 191 months, excluding the 60 defendants who received life sentences and seven who received death sentences.

- In FY 2011 we initiated the following criminal investigations:
 - 27,515 firearms cases, including illegal possession and firearms trafficking;
 - 3,244 arson and explosives cases, including bombing and attempted bombing cases; and,
 - 125 alcohol and tobacco diversion cases.
- Since the inception of Project Gunrunner in FY 2006, ATF has seized 10,902 firearms and over 1.4 million rounds of ammunition destined for the Southwest Border. ATF has arrested 3,515 defendants and obtained evidence that indicates 26,727 firearms were trafficked to Mexico by organizations investigated by ATF.
- In FY 2011, ATF seized 1,171 firearms and 110,219 rounds of ammunition destined for the Southwest Border. ATF has arrested 430 defendants and obtained evidence that 4,330 firearms were trafficked to Mexico by organizations investigated by ATF.
- In FY 2011, ATF referred 311 cases for prosecution related to the Southwest Border, under Project Gunrunner.
- In FY 2011, there were 7,424 retail dealers and pawnbrokers who held Federal Firearms Licenses (FFLs) in Texas, Arizona, New Mexico, and Southern California. In 2011, ATF inspected 50 percent of the FFLs in those four states.

ATF's Internet site contains supporting documentation and reference materials on ATF programs. It can be accessed at <http://www.atf.gov>.

Performance Measure: Percentage of firearms investigations resulting in a referral for criminal prosecution. (DISCONTINUED)

FY 2002 Actual Performance – N/A
FY 2003 Actual Performance – N/A
FY 2004 Actual Performance – N/A
FY 2005 Actual Performance – 55%
FY 2006 Actual Performance – 57%
FY 2007 Actual Performance – 57%
FY 2008 Actual Performance – 60%
FY 2009 Actual Performance – 59%
FY 2010 Actual Performance – 56%
FY2011 Target - N/A



Discussion of FY 2011 Results: This measure was discontinued at the end of FY 2010 and ATF is no longer measuring or reporting results. As part of the development of the FY 2010 – FY 2016 Strategic Plan, ATF developed a Performance Index to measure ATF’s 10 core functions as well as the strategic goals and strategic objectives. The Index included a performance goal statement for each core function to provide comprehensive tracking and measurement of ATF’s performance across the enterprise. In the Index, each performance goal statement aligns with specified strategic objectives and their corresponding performance indicators. This structure allows ATF to evaluate performance at each level: enterprise, budget decision unit, core function/performance goal statement, and strategic objective, and to use performance indicators to track progress against targets. ATF will incorporate the newly developed indicators into future submissions and align them to the Department’s strategic plan.

Data Definitions: This measure reflects the percentage of ATF’s firearms investigations in which a defendant was referred for criminal prosecution. This measure is based on the premise that ATF is the Federal law enforcement agency with unique expertise and statutory authority to enforce Federal firearms laws, and that ATF reduces firearms violence through investigations and their resulting law enforcement consequences (specifically the referral for criminal prosecution and the ensuing incapacitation of criminals under these statutes).¹ More effective enforcement of Federal firearms laws contributes to disrupting criminal activity, deterring violent crime, and safeguarding the legitimate firearms industry from exploitation by criminals. This measure allows ATF to gauge the impact of applying its Federal statutory authority and resources to a national strategy to fight violent crime in our communities – targeting those who commit the violence and those who facilitate their commission by supplying firearms through straw purchases, unlicensed dealing, theft from Federal firearms licensees and interstate carriers, and other illegal means.

Data Collection and Storage: The data source is ATF’s National Field Office Case Information System (NFOCIS), which is ATF’s integrated and centralized data management solution allowing real time monitoring and oversight of all criminal enforcement activities in the field.

¹ “Although studies that focus exclusively on violent offenders are rare, empirical evidence about violent offending can be found in cross-sectional and longitudinal studies of general offending careers. The results from this research generally support the conclusion that incapacitation has nontrivial consequences for the control of violent crime.” Commission on Behavioral and Social Sciences and Education: Understanding and Preventing Violence, Volume 4: Consequences and Control (1994).

Data Validation, and Verification: There is an ongoing quality assurance and case management program in place within ATF which includes the required review and approval of case information by ATF field managers. The data is subsequently verified through ATF's inspection process, performed internally by the Office of Professional Responsibility and Security Operations. The internal inspections occur on a four year cycle and are performed at each ATF field office and division.

Data Limitations: ATF investigations are often complex and time consuming in nature, and often span multiple years from initiation through closure. The data used to calculate this percentage is based on the date investigations are closed, and are therefore likely to include investigations that have spanned previous time periods.

PROGRAMS: Explosives, Bombs, and Bombings; Explosives Industry Operations; Fire and Arson

Background/Program Objectives: ATF is the Federal agency primarily responsible for administering and enforcing the criminal and regulatory provisions of the Federal laws pertaining to destructive devices (bombs), explosives, and arson. Over nearly 40 years, ATF has developed investigative capabilities, expertise, and resources that have positioned ATF as this Nation's definitive source for explosives and fire investigative knowledge and assistance.

Approximately ninety-nine percent of all bombings in the United States fall under the jurisdiction of ATF, but ATF also responds to and plays a key role in investigating the few incidents that are classified as "terrorist bombings." These include incidents that are classified as domestic terrorism, such as those perpetrated by animal rights activists. An array of specialized programs and technical services managed and executed by a diverse and knowledgeable workforce, is the foundation of ATF's success. These include, but are not limited to, the following:

- **Certified Explosives Specialist (CES) Program:** The primary mission of this program is to protect the public through the vigorous enforcement of the Federal explosives laws; to provide credible explosives crime scene examinations; to lend expertise in support of security measures implemented at special events; and to assist ATF's law enforcement counterparts at the Federal, State, local, and international levels in their efforts to investigate complex explosives-related incidents.
- **Explosives Enforcement Officers:** ATF's explosives enforcement officers (EEOs) provide technical assistance and support in explosives matters. EEOs have extensive experience in explosives and bomb disposal. Most EEOs are former military explosive ordinance disposal (EOD) trained, with extensive training in nuclear, biological, chemical, and conventional high explosive and incendiary weapons systems. EEOs render explosive devices safe and/or disassemble explosive and incendiary devices, prepare destructive device determinations, and render expert testimony in support of such determinations in State and Federal criminal court proceedings. Additionally, EEOs provide expert analysis and onsite investigative technical assistance at bombing and arson scenes and scenes where explosions of an undetermined nature have occurred. They play a critical role in large-scale explosives destructions.

Determining what constitutes an explosive, incendiary, or destructive device under the Federal explosives laws and the National Firearms Act involves highly technical examinations and analyses, and is a function that is uniquely performed by ATF's EEOs.

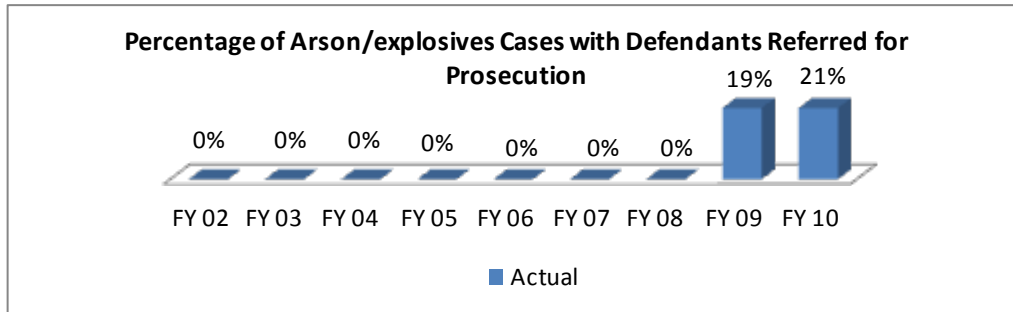
- **Certified Fire Investigator (CFI) Program:** The CFI Program consists of special agents who have undergone an extensive 2-year training program designed to educate them in the field of advanced fire scene examination, with emphasis on modern principles of fire dynamics. These agents comprise the only group of fire origin and cause specialists within the Federal sector.

The special agent CFI's serve as ATF's primary resource in fire-related matters. They conduct fire scene examinations and render origin and cause determinations on behalf of ATF; provide expert courtroom testimony; provide technical support and analysis to assist other special agents and prosecutors with court preparation, presentation of evidence, and technical interpretation of fire-related information; lend technical guidance in support of field arson investigative activities; conduct arson-related training for ATF special agents and other Federal, State, and local fire investigators; and conduct research and identify trends and patterns in fire incidents.

National Response Team (NRT): ATF's National Response Team was formed in 1978 to help meet the needs of those who respond to and investigate complex incidents. The NRT consists of four regional response units. Each unit can respond to an incident within 24 hours and is comprised of technical experts and veteran special agents having post-blast and fire origin and cause expertise, including CESs, CFIs, EEOs, forensic chemists, fire protection engineers, electrical engineers, forensic mapping capabilities, and accelerant and explosives detection canines. Further complementing the team's efforts are intelligence and audit support, and technical and legal advisors.

Performance Measure: Percentage of arson/explosives cases with defendants referred for prosecution. (DISCONTINUED)

FY 2002 Actual Performance – N/A
FY 2003 Actual Performance – N/A
FY 2004 Actual Performance – N/A
FY 2005 Actual Performance – N/A
FY 2006 Actual Performance – N/A
FY 2007 Actual Performance – N/A
FY 2008 Actual Performance – N/A
FY 2009 Actual Performance – 19%
FY 2010 Actual Performance – 21%
FY 2011 Target – N/A



Discussion of FY 2011 Results: This measure was discontinued at the end of FY 2010 and ATF is no longer measuring or reporting results. As part of the development of the FY 2010 – FY 2016 Strategic Plan, ATF developed a Performance Index to measure ATF’s 10 core functions as well as the strategic goals and strategic objectives. The Index included a performance goal statement for each core function to provide comprehensive tracking and measurement of ATF’s performance across the enterprise. In the Index, each performance goal statement aligns with specified strategic objectives and their corresponding performance indicators. This structure allows ATF to evaluate performance at each level: enterprise, budget decision unit, core function/performance goal statement, and strategic objective, and to use performance indicators to track progress against targets. ATF will incorporate the newly developed indicators into future submissions and align them to the Department’s strategic plan.

Data Definitions: The majority of ATF's resources in arson and explosives are expended to prevent explosives from getting into the hands of those who would use them for criminal purposes, and to investigate and refer for prosecution those who have used explosives for such purposes. This measure reflects the outcome of ATF's investigative efforts in arson and explosives criminal cases, from the initial on-scene assessment and determination that a crime has been committed, the application of technical and forensic resources in the course of the investigation, the identification of suspects, the development/gathering of evidence sufficient to support criminal charges, and finally, to the presentation of a criminal case suitable for prosecution to the prosecuting attorney.

Data Collection and Storage: Data to support the measure for the percentage of cases with arson and explosives defendants referred for prosecution is collected through the NFOCIS. NFOCIS provides ATF with an integrated and centralized data management solution that allows for real time monitoring and oversight of all criminal enforcement and industry operations activities in the field. NFOCIS provides the platform for analysis of investigative information for the purpose of producing intelligence and statistical reports derived from the information collected by ATF.

Data Validation, and Verification: Program evaluations by internal and external entities are being used to validate performance measures, assess program effectiveness, and determine whether operating policies are followed. ATF has also initiated various program evaluations and customer surveys to gauge program impact, efficiency and effectiveness of, and customer satisfaction with, ATF support and services provided to industry and law enforcement.

ATF Performance Index Discussion:

Data Definitions: ATF has developed a Performance Index to measure ATF’s 10 core functions as well as the strategic goals and strategic objectives. The Index includes a performance goal statement for each core function to provide comprehensive tracking and measurement of ATF’s performance across the enterprise. ATF’s outcome-based performance goal statements are shown below:

<i>Core Function</i>	<i>Performance Goal Statement</i>
Illegal Firearms Trafficking	Reduce the risk to public safety caused by illegal firearms trafficking
Firearms Criminal Possession and Use	Reduce the risk to public safety caused by criminal possession and use of firearms
Firearms Industry Operations	Improve public safety by increasing compliance with Federal laws and regulations by firearms industry members
Criminal Groups and Gangs	Reduce the risk to public safety caused by criminal organizations and gangs
Explosives, Bombs, and Bombings	Reduce the risk to public safety caused by bombs and explosives
Explosives Industry Operations	Improve public safety by increasing compliance with Federal laws and regulations by explosives industry members
Fire and Arson	Reduce the risk to public safety caused by the criminal use of fire
Alcohol and Tobacco	Reduce the loss of tax revenues caused by contraband alcohol and tobacco trafficking
Modernization	Modernize business processes and systems for improved mission effectiveness and transparency
Workforce	Attract, develop, and retain an expert workforce to execute the ATF mission

In the Index, each performance goal statement aligns with specified strategic objectives and their corresponding performance indicators. This structure allows ATF to evaluate performance at each level: enterprise, budget decision unit, core function/performance goal statement, and strategic objective, using performance indicators to track progress against targets.

Applying an index to gauge performance is a widely accepted practice for compiling multiple performance indicators into a single number. Examples of indices used elsewhere in the Federal government include the Environmental Protection Agency’s UV Index and the FBI’s annual calculation of a crime rate, resulting in the FBI Uniform Crime Report. As used at ATF, the Index

number moves up or down and portrays the progress made against pre-established performance goal statements.

Data Collection and Storage: The Index measures progress against quantifiable goals or targets. ATF has established a target for each performance indicator included in the Index based on historic performance and ATF’s current or anticipated operating environment. Each piece of the Index (performance indicator, strategic objective, performance goal statement, and budget decision unit) has been assigned a weight to show its strength relative to the overall Index. The weight assigned to each of the performance indicators is based on the indicator’s effectiveness as a measure of its respective performance goal statement. The weight of each strategic objective is the sum of the weights of the performance indicators that comprise it. The performance goal statements were weighted according to two criteria: impact on its respective budget decision unit mission (e.g., the impact of Illegal Firearms Trafficking on ATF’s Firearms mission), and ATF’s current capabilities in the area of the performance goal statement. Weights are assigned to ATF’s budget decision units (firearms, arson and explosives, and alcohol and tobacco) in accordance with established Congressional reprogramming thresholds among these mission areas.

The Index is a compilation of mathematical calculations that combine ATF’s actual progress toward targets, and the weight of the performance indicator, strategic objective, performance goal statement, and budget decision unit. The calculations to determine the value for each level of ATF’s Performance Index is as follows:

- Per Performance Indicator: Actual ÷ Target x Weight of Performance Indicator
- Per Strategic Objective: Sum of Performance Indicator Subtotals
- Per Performance Goal Statement: Sum of Strategic Objective Totals x Weight of Performance Goal Statement
- Per Budget Decision Unit: Sum of Performance Goal Statement Subtotals x Weight of Budget Decision Unit
- ATF Performance Index: Sum of All Budget Decision Unit Subtotals

The calculations at the performance indicator and strategic objective levels are displayed in the example below.

Example Strategic Objective Calculation					
Performance Indicator	Actual	Target	Score (Actual / Target)	Weight (Percent)	Subtotal (Score x Weight)
A	65	100	0.65	0.15	0.0975
B	180	200	0.90	0.75	0.675
C	50	250	0.20	0.10	0.02
Sum of Subtotals =					0.7925
Example Strategic Objective Value (Sum x 100) =					79.25

Data Validation, and Verification: The sum of the strategic objectives respective to each performance goal statement is then multiplied by the weight assigned to the performance goal statement. The sum of the budget decision unit subtotals establishes the score of the ATF Performance Index.

The Performance Index helps facilitate informed decision making regarding ATF's priorities, activities, and resources. The Index compiles multiple Performance Indicators into a single number to measure performance at both the Bureau and program levels. It does this by aligning ATF's congressionally mandated Budget Decision Units with the Bureau's Performance Goal Statements, Strategic Objectives, and Performance Indicators for a comprehensive tracking and measurement of ATF's performance.

This approach allows ATF to analyze data in several different ways (% change from year to year, quarter to quarter, year to date, raw data trends, Field Office views, absolute change) to show all the different dimensions of the data for ATF management consideration and evaluation. ATF's Performance Index allows insight into actual performance outcomes related to ATF's mission areas. This approach makes it possible for ATF to collect and analyze data in ways that give ATF leaders the ability to recognize performance trends, push for organizational efficiencies and implement corrective action plans as needed.

ATF's Performance Index allows ATF to partner with its network (DOJ, component agencies, task force partners, etc.) and work together to make improvements where necessary (e.g., Defendants referred and delineation rates trend up however defendants convicted rates stagnant or going trending downward; requires conversation with US Attorney, corrective action plan, etc.)

ATF's performance review process uses goal-focused, data-driven reviews at least once every quarter to assure that follow-up steps are taken to increase the likelihood of achieving better outcomes and higher productivity. This same review process tracks ATF's progress in achieving its GPRA long-term and annual goals by showing long-term trends, along with contextual indicators and makes clear the link between agency output targets and longer-term outcome goals.

ANALYSIS OF SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

Federal Managers' Financial Integrity Act of 1982

The Federal Managers' Financial Integrity Act of 1982 (Integrity Act or FMFIA) provides the statutory basis for management's responsibility for and assessment of internal accounting and administrative controls. Such controls include program, operational, and administrative areas, as well as accounting and financial management. The Integrity Act requires federal agencies to establish controls that reasonably ensure obligations and costs are in compliance with applicable law; funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and revenues and expenditures are properly recorded and accounted for to maintain accountability over the assets. The Integrity Act also requires agencies to annually assess and report on the internal controls that protect the integrity of federal programs (FMFIA § 2) and whether financial management systems conform to related requirements (FMFIA § 4).

Guidance for implementing the Integrity Act is provided through Office of Management and Budget (OMB) Circular A-123, Management's Responsibility for Internal Control. In addition to requiring agencies to provide an assurance statement on the effectiveness of programmatic internal controls and conformance with financial systems requirements, the Circular requires agencies to provide an assurance statement on the effectiveness of internal control over financial reporting. The Department requires components to provide both of the assurance statements in order to have the information necessary to prepare the agency assurance statements.

FMFIA Assurance Statement

ATF's Acting Director provided reasonable assurance that internal controls and financial systems met the objectives of Section 2 and 4 of the FMFIA and complies with the requirements of the Federal Financial Management Improvement Act (FFMIA).

Management of the Bureau of Alcohol, Tobacco, Firearms and Explosives (ATF) has established and maintained effective internal control and financial management systems that meet the objectives of FMFIA. ATF assessed its internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations in accordance with OMB Circular A-123, as required by Section 2 of the FMFIA. Based on the results of this assessment, ATF provides reasonable assurance, as of June 30, 2011, that its internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations is operating effectively.

ATF also assessed whether its financial management systems conform to government-wide requirements. Based on the results of this assessment, ATF provides reasonable assurance that there are no non-conformances that are required to be reported by Section 4 of the FMFIA. While the presence of complementary or redundant controls presented a potential risk, we determined the risk level to be minimal. In addition, ATF acknowledges several issues related to access controls.

ATF implements compensating controls to eliminate deficiencies and continues to identify system vulnerabilities and recommend security solutions to maintain systems at a reasonable assurance level.

ATF bases this assertion on the following information sources:

- Internal control assessments including tests of key financial reporting controls;
- Management knowledge and experience gained from daily oversight of component programs, accounting systems, and administrative controls;
- Program audit reports;
- Financial statement audit reports;
- Financial management system evaluations and reports pursuant to OMB Circular A-127, Financial Management Systems;
- Evaluations and reports pursuant to the Federal Information Security Management Act (FISMA) and OMB Circular A-130, Management of Federal Information Resources;
- Management reviews;
- Internal reviews and investigations;
- Office of the Inspector General (OIG) reports and Government Accountability Office (GAO) reports;
- Performance plans and reports; and
- Statements of Assurance from each directorate head.

ATF's accomplishments demonstrate the Bureau's continued commitment to supporting a complex law enforcement mission of preventing terrorism, reducing violent crime, and protecting our Nation.

There is "reasonable assurance" that the financial system for the Bureau of Alcohol, Tobacco, Firearms and Explosives (ATF) is in conformance with government-wide financial information standards and financial system functional standards under Section 4 of FMFIA for FY 2011.

This statement of assurance is based on the Unified Financial Management System (UFMS) which is the Bureau's core financial system for both revenue and administrative accounting, and assessments of all associated financial system modules. Based on the current management, operational, and technical controls in place, we have reasonable assurance that our financial and administrative systems have no material issues as they relate to Section 4 of FMFIA and are "compliant" with the FMFIA. This statement of assurance is based on the Bureau's core financial system for both revenue and administrative accounting, and assessments of all associated financial system modules and the financial portions of mixed systems, supporting both financial and non-financial functions.

Some additional accomplishments related to Section 4 of FMFIA are as follows:

- ATF has consistently closed its books within three work days following an accounting period.
- During FY 2011, ATF successfully converted to the Unified Financial Management System (UFMS).
- ATF also utilizes an internal management tool for preparing accounting reconciliations and reporting financial information. To validate that procedures and policies are being followed, the tool monitors and manages budgeting and accounting activity and ensures that data in UFMS is current and accurate. In addition, ATF incorporated an internal management control

that ensures access recertification. Monthly comparisons between E-Request and UFMS ensure there are no discrepancies between requesting and receiving system access.

ATF controls that fulfill the Prompt Payment Act requirements include date stamping invoices by individuals not involved in the payment process; performing quality and validity reviews of each invoice; encouraging program offices to be prompt in entering receipts for goods and services into the financial system; and using management reporting tools to track outstanding invoices in the financial system to prevent late payments and associated interest penalties.

With respect to internal accounting control, ATF management identifies designs, operates, maintains, and monitors an appropriate system of internal controls to enable the Bureau to accurately report its financial information to the Department of Justice (DOJ) and meet the requirements of OMB Circular A-123, Appendix A and FFMIA.

In accordance with DOJ's OMB Circular A-123 Implementation Plan, the Department's Senior Assessment Team identified the business processes significant at the Departmental level and the DOJ components comprising a significant share of those processes. As required by the Department's FY 2011 Guidance for Implementation of OMB Circular A-123, we have documented the following significant business processes and tested key controls for each:

- Information Systems;
- Budget/Funds Management;
- Financial Reporting;
- Property;
- Procurement; and
- Seized and Forfeited Property.

In addition, as also required by DOJ's FY 2011 Guidance for Implementation of OMB Circular A-123, ATF has tested key controls over sensitive payments related to:

- Travel Expenditures, including Premium Class and Executive Travel;
- Transit Subsidies; and
- Conference Expenditures.

The results of testing identified no material weaknesses in ATF's internal control over financial reporting as of September 30, 2011. However, the testing did identify some deficiencies in the processes related to recording obligations, financial statement quality assurance reviews and property. Management considered the deficiencies to be reportable conditions required to be reported by Section 2 of FFMIA and OMB Circular A-123, Appendix A. Corrective Action Plans were developed to correct the deficiencies. All milestones included in the plans will be completed before the end of FY 2012.

Federal Financial Management Improvement Act of 1996

The Federal Financial Management Improvement Act of 1996 (FFMIA) was designed to improve federal financial and program managers' accountability, provide better information for decision-making, and improve the efficiency and effectiveness of federal programs. FFMIA requires agencies to have financial management systems that substantially comply with federal financial management systems requirements, applicable federal accounting standards, and the U.S. Standard General Ledger (USSGL) at the transaction level. Furthermore, the Act requires independent auditors to report on agency compliance with the three requirements in the financial statement audit report. The Federal Information Security Management Act (FISMA) states that to be substantially compliant with FFMIA, there are to be no significant deficiencies in information security policies, procedures, or practices.

FFMIA Compliance Determination

During FY 2011, ATF assessed its financial management systems for compliance with FFMIA and determined that they substantially comply with FFMIA. This determination is based on the results of FISMA reviews and testing performed for OMB Circular A-123, Appendix A. Consideration was also given to any issues identified during the ATF's financial statement audit.

POSSIBLE FUTURE EFFECTS OF EXISTING EVENTS AND CONDITIONS

ATF has aligned its priorities to the current priorities of the President and the Nation to fight terrorism and to make our people and our communities safe from violence. Firearms and explosives are the tools of terrorism; ATF continues to regulate their legitimate use and enforce laws against criminal misuse. The illegal importation and trafficking of these terrorist tools continue to be disrupted through our investigations and regulatory efforts. Because our communities continue to struggle against the violence of criminals and gangs, ATF's initiatives and partnerships with other law enforcement organizations are critical components in the fight to protect the American people from violent firearms crime. ATF's partnership strategies with all of the U.S. Attorney's offices, including those in locations that currently do not have a full time PSN resource, increase the effectiveness of efforts to target gangs and violent crime.

In FY 2011, OPM and OMB approved the implementation of Voluntary Early Retirement Authority (VERA) and Voluntary Separation Incentive Payment (VSIP) incentives within ATF. These authorities allow us to approve these separation incentives for up to 721 Bureau employees through June 3, 2013. These authorities will assist ATF in reshaping and right-sizing our workforce, enabling the Bureau to meet ongoing fiscal challenges.

The potential threat to public safety from criminal or terrorist theft and misuse of explosives cannot be overstated. Because of the extremely high and unacceptable risk, ATF believes that more comprehensive enforcement and regulatory efforts are essential to ensure the safe and secure storage of explosive materials. ATF's responsibility for public safety requires us to investigate all reported thefts of explosives and conduct comprehensive inspections of all explosives licensees triennially. ATF continues to work with the explosive industry manufacturers and users to improve the security, safe handling, and storage of these materials.

The following are examples of issues that have the potential to affect ATF operations in multiple regions:

- As gangs spread out across the United States, they may be moving to areas where ATF does not have a presence (e.g., increased violence on the Southwest Border that spills over into the United States from Mexico).
- In terms of workforce availability, cities that are experiencing dramatic increases in the cost of living will have difficulty providing rapid responses to emergency situations as personnel must travel long distances from residences; in addition, it may be difficult to retain qualified personnel in these areas.
- The potential closure of additional military bases, as well as large companies and industries that employ thousands of people in particular geographic areas, may cause crime to increase.
- Similarly, natural disasters such as hurricane, flood and wildfire will present economic challenges and the potential for an increase in crime.
- Localities that are dealing with economic downturns and are having difficulty funding government services (e.g., police forces) will impact ATF operations, as local governments may not be able to provide officers to participate in ATF task forces.
- An economic downturn may lead to a rise in arson fires.
- Changes in state laws and changes in taxes have the potential to affect trafficking patterns (e.g., firearms, alcohol and tobacco).
- Several areas have expressed concern about the potential for violent acts by extremist environmental groups and organizations.
- Along with other agencies, ATF has contingency plans in place to continue operating if its own facilities and personnel are directly affected or threatened by terrorist acts. However, any such threats may have a negative impact on the Bureau's ability to address other forms of violence.

IMPROPER PAYMENTS ELIMINATION AND RECOVERY ACT (IPERA) REPORTING

In accordance with OMB Circular A-123, Appendix C, *Requirements for Effective Measurement and Remediation of Improper Payments*, and the Departmental guidance for implementing the Improper Payments Elimination and Recovery Act (IPERA), the Department implemented a top-down approach to assess the risk of significant improper payments across all five of the Department's mission-aligned programs, and to identify and recapture improper payments through a payment recapture audit program. The approach promotes consistency across the Department and enhances internal control related to preventing, detecting, and recovering improper payments. Because of the OMB requirement

to assess risk and report payment recapture audit activities by agency programs, the results of the Department's risk assessment and recapture activities are reported at the Department-level only.

In accordance with the Departmental approach for implementing IPERA, Alcohol, Tobacco, Firearms and Explosives (ATF) assessed its activities for susceptibility to significant improper payments. ATF also conducted its payment recapture audit program in accordance with the Departmental approach. ATF provided the results of both the risk assessment and payment recapture audit activities to the Department for the Department-level reporting in the FY 2011 Performance and Accountability Report.

LIMITATIONS OF THE FINANCIAL STATEMENTS

- The financial statements have been prepared to report the financial position and results of operations of ATF, pursuant to the requirements of 31 U.S.C. 3515(b).
- While the statements have been prepared from the books and records of ATF in accordance with accounting principles generally accepted in the United States of America for Federal entities and the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources which are 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.

Independent Auditors' Reports

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INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS

Acting Inspector General
United States Department of Justice

Acting Director
Bureau of Alcohol, Tobacco, Firearms and Explosives
United States Department of Justice

We have audited the accompanying Consolidated Balance Sheets of the Bureau of Alcohol, Tobacco, Firearms and Explosives (ATF), a component of the United States Department of Justice (DOJ), as of September 30, 2011 and 2010, and the related Consolidated Statements of Net Cost, Consolidated Statements of Changes in Net Position, Combined Statements of Budgetary Resources, and Combined Statements of Custodial Activity for the years 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of ATF's internal control over financial reporting. Accordingly, we express no such opinion. 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 audits provide a reasonable basis for our opinion.

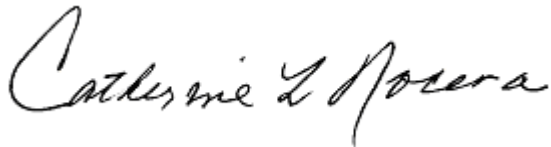
In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the United States Department of Justice, Bureau of Alcohol, Tobacco, Firearms and Explosives as of September 30, 2011 and 2010, and its consolidated net costs, consolidated changes in net position, combined budgetary resources, and combined custodial activity for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America and OMB Circular No. A-136, *Financial Reporting Requirements*, require that the *Management's Discussion and Analysis* and the *Combining Statements of Budgetary Resources* be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Federal Accounting Standards Advisory Board and OMB, who consider it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the

required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

In accordance with *Government Auditing Standards*, we have also issued our reports dated November 4, 2011, on our consideration of ATF's internal control over financial reporting and on our tests of its compliance with certain provisions of applicable laws and regulations. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of our audits.

COTTON & COMPANY LLP

A handwritten signature in black ink that reads "Catherine L. Nocera". The signature is written in a cursive, flowing style.

Catherine L. Nocera, CPA, CISA
Partner

November 4, 2011
Alexandria, Virginia



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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Acting Inspector General
United States Department of Justice

Acting Director
Bureau of Alcohol, Tobacco, Firearms and Explosives
United States Department of Justice

We have audited the Consolidated Balance Sheets of the Bureau of Alcohol, Tobacco, Firearms and Explosives (ATF), a component of the United States Department of Justice (DOJ), as of September 30, 2011 and 2010, and the related Consolidated Statements of Net Cost, Consolidated Statements of Changes in Net Position, Combined Statements of Budgetary Resources, and Combined Statements of Custodial Activity for the years then ended, and have issued our report thereon dated November 4, 2011. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended.

ATF's management is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our fiscal year 2011 audit, we considered ATF's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of ATF's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of ATF's internal control over financial reporting or on management's assertion on internal control included in *Management's Discussion and Analysis*. We limited our internal control testing to only those controls necessary to achieve the objectives described in *Government Auditing Standards* and OMB Bulletin No. 07-04. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*, such as controls relevant to ensuring efficient operations.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the second paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described below, that, when combined, we consider to be a significant deficiency in internal control over financial reporting. A significant deficiency is a

deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit the attention of those charged with governance.

ATF's response to the finding identified in our audit is included after each recommendation. We did not audit ATF's response and, accordingly, we express no opinion on it.

CONTROLS OVER FINANCIAL REPORTING NEED IMPROVEMENT (SIGNIFICANT DEFICIENCY) (NEW)

ATF's internal control over financial reporting needs improvement to ensure that amounts reported in its financial statements are valid, accurate, and complete. ATF personnel did not sufficiently and adequately reconcile general ledger accounts, review transactions before posting them to the general ledger, and analyze account balances to determine their validity. As a result, we identified numerous errors and misstatements in testing recorded June 30, 2011 general ledger account balances, as discussed below.

PROPERTY, PLANT AND EQUIPMENT AND RELATED ACCOUNT BALANCES

ATF records certain accounting transactions related to its capitalized equipment accounts based on information derived from a reconciliation between its equipment property schedules and its property management system (Sunflower). ATF did not perform this reconciliation during the first nine months of fiscal year 2011, and made numerous errors when performing a reconciliation to support its June 30, 2011 financial statement adjustments. In addition, ATF maintains real property schedules to support construction in process, leasehold improvements, and buildings, and internal use software, and software in development schedules. ATF did not update its software and development schedules as of June 30, 2011 and made errors when updating its property schedules. As a result, ATF's June 30, 2011 financial statements contained the following misstatements.

Account	Known Errors
Property, Plant and Equipment	\$1.3 million net understatement
Depreciation Expense	\$9.9 million net understatement
Accumulated Depreciation	\$9.9 million net understatement
Operating Expenses	\$1.3 million net overstatement
Financing Sources Transferred In	\$62 thousand overstatement

Equipment Schedule

- ATF performed the reconciliation of its capitalized equipment accounts after submitting the June 30, 2011 financial statements, and identified a \$762 thousand overstatement in the equipment account balance at June 30, 2011, and an \$8.3 million understatement in accumulated depreciation. The accumulated depreciation understatement (and the corresponding understatement in depreciation expense) was primarily the result of two errors made when calculating and recording accumulated depreciation.
 - ATF records current-year equipment depreciation expense by comparing accumulated depreciation in Sunflower reports to accumulated depreciation in its general ledger balances. In performing this analysis, ATF erroneously deducted \$1.8 million for bulk asset depreciation from the Sunflower amount instead of adding it. This error resulted in an understatement of \$3.6 million.
 - ATF posted a \$4.6 million on-top adjustment to its accumulated depreciation account to record fiscal year 2011 equipment disposals. However, this entry was not necessary because ATF had already posted an equipment depreciation entry adjusting the accumulated depreciation account to agree to Sunflower, which reflected the disposals in the accumulated depreciation balance.

- Accumulated depreciation was further understated by \$1.5 million (and depreciation expense was understated by the same amount) because ATF transferred the cost and accumulated depreciation for assets acquired under an expired capital lease to equipment accounts on its general ledger in June 2011 but did not adjust the accumulated depreciation in Sunflower for these assets. Because ATF records accumulated depreciation based on Sunflower, the general ledger balance was understated.
- ATF's reconciliation included an adjustment reducing the Sunflower balance by \$1.4 million for four computer servers recorded in Sunflower during the first nine months of fiscal year 2011. The servers were properly included in Sunflower at June 30, 2011; they were not capitalized in the general ledger, however, because the original purchase was recorded to an incorrect budget object class. This error resulted in a \$1.4 million understatement in the general ledger equipment account.
- ATF recorded an on-top adjustment to reclassify servers initially expensed to the equipment account. One asset was erroneously excluded from the adjustment, resulting in a \$128 thousand understatement in equipment and an overstatement of the same amount in operating expenses.
- ATF erroneously recorded the value of a forfeited vehicle in Sunflower as \$69 thousand instead of \$6.9 thousand. The Sunflower report was used as the basis for a June 30, 2011 on-top adjustment to record this asset, resulting in a \$69 thousand overstatement in the equipment account (the asset would not have been capitalized if recorded at its correct value), and a \$20 thousand overstatement in accumulated depreciation.
- In subsequent account analyses, ATF identified \$369 thousand posted to the general ledger equipment account for assets acquired in fiscal year 2011 that did not meet ATF's capitalization threshold.

Real Property Schedules

Three of ten construction-in-progress projects tested, totaling \$1.5 million, were completed prior to June 30, 2011 and should not have been included in construction-in-progress. ATF stated that \$368 thousand of planning and development costs under one project should have been expensed rather than included in construction-in-progress, and the costs of the other two projects should have been reclassified to the buildings account. Based on the completion dates for these two projects, depreciation expense and accumulated depreciation were understated by \$40 thousand.

Software Schedules

ATF did not analyze its capitalized internal use software and development costs and update its general ledger during the first nine months of fiscal year 2011. We identified \$1.3 million of software and development costs that were incorrectly recorded as operating expenses, resulting in an understatement of capitalized software and an overstatement of operating expenses.

In addition, ATF calculates and records real property and capitalized software depreciation based on an analysis performed using Excel spreadsheets. The cost of one ADP software asset acquired in the prior fiscal year was not recorded on the fiscal year 2011 depreciation spreadsheet, resulting in a \$64 thousand understatement of depreciation expense and accumulated depreciation.

During the fourth quarter of fiscal year 2011, ATF performed a comprehensive reconciliation between its capitalized equipment property schedules and Sunflower, and updated its real property and software schedules. Adherence to these control activities enabled ATF to correct the errors identified during our June 30, 2011 testing, and to ensure the accuracy and completeness of its September 30, 2011 account balances.

UPWARD AND DOWNWARD ADJUSTMENTS

ATF began using a new unified financial management system (UFMS) in fiscal year 2011. The posting logic for processing upward and downward adjustments was not configured properly within UFMS. As a result, ATF

recorded erroneous upward and downward adjustments related to prior year accruals, and did not detect and correct the errors prior to preparing its June 30, 2011 financial statements. Specifically,

- ATF reversed its prior year accruals using standard vouchers with a posting logic that included upward and downward adjustments. This practice resulted in overstated downward adjustments of \$11.1 million and overstated upward adjustments of \$10.2 million.
- ATF posted standard vouchers to record the impact on prior year expired authority for payroll documents. The posting logic erroneously did not include the use of upward and downward adjustment accounts. This practice resulted in understated upward adjustments of \$487 thousand.

During the fiscal year 2011 fourth quarter, ATF posted accounting entries to correct the errors noted as of June 30, 2011. However, ATF did not successfully correct all of the errors, and did not perform analytical procedures to ensure that its adjustments resulted in the expected account balances. Accordingly, we noted that upward adjustments were overstated by \$3.8 million and downward adjustments were overstated by \$2.1 million on ATF's draft September 30, 2011 financial statements. ATF corrected the remaining errors prior to submitting its final financial statements.

GROSS COSTS ON THE STATEMENT OF NET COSTS

ATF erroneously recorded a February 2011, \$4.7 million journal voucher to reduce its unfunded leave liability to the future funded expenses – Federal account. The leave liability and all associated costs are with the public, and should have been posted to the future funded expenses – non-Federal account. As a result, ATF understated Gross Costs – Intragovernmental and overstated Gross Costs – With the Public on its June 30, 2011 Statement of Net Costs. ATF corrected this error prior to submitting its draft September 30, 2011 financial statements.

ACCOUNTS PAYABLE

In fiscal year 2011, ATF developed a statistical accrual methodology to estimate its liability to commercial vendors for goods and services received but not invoiced. Based on a historical analysis of payment vouchers recorded in prior years, ATF developed a weighted average accrual rate that it applied to open obligation balances to calculate its June 30, 2011 accounts payable estimated accrual. Although the methodology was generally sound and adequately supported, we identified the following issues with respect to ATF's initial calculation and application of the accrual rate.

Analysis to Develop Accrual Rate

The statistical accrual rate used to estimate accounts payable was misstated because of errors in identifying and testing the expense population used to calculate the rate.

- ATF tested samples of non-Federal expenses for the three prior years to identify amounts that should have been accrued. However, the samples included expenses that ATF did not intend to include in its accrual population:
 - ATF calculates a separate accrual for travel. However, ATF's expense samples included 128 transactions related to travel vouchers.
 - ATF's testing population, as described in its sampling methodology, should have excluded permanent change of station (PCS) documents because ATF performs a separate accrual for relocation expenses. However, ATF's expense samples included 18 transactions for ATF's relocation vendor, which were included in the separate PCS accrual.
- ATF tested expenses recorded in the first six or seven months of fiscal years 2009, 2010 and 2011 to determine whether they should have been accrued in the prior fiscal year. Included in these populations, and

in ATF's test samples, were payment vouchers funded with current year appropriations. Because this funding had not been available in the previous year, these payment vouchers would not include amounts incurred in previous years, and would not contribute to the accounts payable accrual at September 30, 2011. Sample transactions included 408 transactions funded with current appropriations.

Application of Accrual Rate

ATF's June 30, 2011 accounts payable and operating expenses were misstated to the extent that the statistical accrual rate was applied to travel and capital lease obligations.

- ATF's June 30, 2011 on-top adjustments included a \$1.2 million travel expense accrual. However, in calculating its statistical accounts payable estimate, ATF applied its accrual rate to obligations that included travel orders. This resulted in a duplicate accrual for travel expenses.
- ATF included capital lease obligations of \$1.7 million in the non-Federal open obligations amount to which it applied the estimated accrual rate. However, ATF's liability for these leases is recorded to a separate general ledger account, and these obligations should not be included in the statistical accounts payable accrual.

Based on its methodology, ATF adjusted the September 30, 2011 open obligations to which the statistical accrual rate was applied, to exclude obligations that were incurred during the last 15 days of the fiscal year. These obligations would have minimal, if any, incurred expenses as of September 30, 2011. However, ATF only excluded new obligations and did not exclude a \$19.9 million modification to an existing contract that was executed during this time period. Therefore, ATF overstated its initial accrual by \$5.9 million. ATF corrected its accrual calculation to exclude the \$19.9 million contract modification from the open obligations total prior to submitting its draft financial statements.

OMB Circular A-123, *Management's Responsibility for Internal Control*, states: "Management is responsible for establishing and maintaining internal control to achieve the objectives of effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations." It further states: "Transactions should be promptly recorded, properly classified and accounted for in order to prepare timely accounts and reliable financial and other reports."

Government Accountability Office (GAO) *Standards for Internal Control in the Federal Government* (GAO/AIMD-00-21.3.1) requires control activities to ensure that all transactions are completely and accurately recorded.

RECOMMENDATIONS

We recommend that ATF:

1. Establish stronger oversight controls for financial reporting and validation of recorded transactions, including:
 - timely and comprehensive reconciliation of general ledger account balances with subsidiary records;
 - review and approval of source documentation, calculations, and posting by someone other than the preparer; and
 - more thorough data analysis and managerial reviews, including performance of more analytical procedures at the transaction, and general ledger account level. *(New)*

Management Response:

ATF concurs with the recommendation and is implementing corrective actions to strengthen controls in financial reporting to include validation of recorded transactions. We plan to publish policies, incorporate a more extensive analysis and refine our timelines to allow for enhanced peer/management review.

2. Work with the Department to standardize recording and reporting of upward and downward adjustments. *(New)*

Management Response:

ATF concurs with the recommendation. We will work with the Department to standardize a business process for recording and reporting upward and downward adjustments to prior year obligations.

3. Implement a quality control review process for second-party review of the annual statistical accounts payable accrual rate development, as well as the quarterly accrual calculations. *(New)*

Management Response:

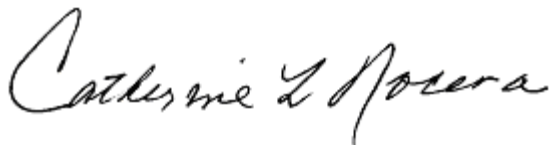
ATF concurs with the recommendation and plans to implement a second party review to validate our accounts payable estimation process and conduct quarterly quality control reviews on the statistical accounts payable process.

* * * *

We provide the current status of the open recommendation from prior years in the following Exhibit.

This report is intended solely for the information and use of ATF's management, DOJ Office of the Inspector General, OMB, U.S. Government Accountability Office, and the U.S. Congress; it is not intended to be and should not be used by anyone other than these specified parties.

COTTON & COMPANY LLP



Catherine L. Nocera, CPA, CISA
Partner
November 4, 2011
Alexandria, Virginia

EXHIBIT

STATUS OF PRIOR YEAR'S FINDING AND RECOMMENDATION

As required by *Government Auditing Standards* issued by the Comptroller General of the United States, and by OMB Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended, we have reviewed the status of the prior year finding and recommendation. The following table provides our assessment of the progress ATF has made in correcting the previously identified significant deficiency. We also provide the Office of the Inspector General report number where the deficiency was reported, our recommendation for improvement, and the status of the recommendation as of the end of fiscal year 2011:

Report	Significant Deficiency	Recommendation	Status
Annual Financial Statement Fiscal Year 2010 Report No. 11-13	Funds management controls need improvement.	Recommendation No. 1: ATF needs to establish stronger oversight controls for processing accounts payable, obligation, and deobligation transactions.	Completed ¹

¹Sufficient progress has been made in addressing this finding and the related recommendation such that the remaining risk of misstatement no longer merits the attention by those charged with governance. Therefore, the condition has been downgraded to a deficiency in internal control.

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND OTHER MATTERS

Acting Inspector General
United States Department of Justice

Acting Director
Bureau of Alcohol, Tobacco, Firearms and Explosives
United States Department of Justice

We have audited the Consolidated Balance Sheets of the Bureau of Alcohol, Tobacco, Firearms and Explosives (ATF), a component of the United States Department of Justice (DOJ), as of September 30, 2011 and 2010, and the related Consolidated Statements of Net Cost, Consolidated Statements of Changes in Net Position, Combined Statements of Budgetary Resources, and Combined Statements of Custodial Activity for the years then ended, and have issued our report thereon dated November 4, 2011. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended.

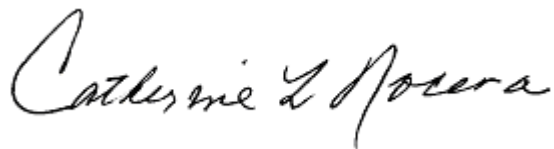
ATF's management is responsible for complying with laws, regulations, and contract agreements applicable to ATF. As part of obtaining reasonable assurance about whether ATF's fiscal year 2011 financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contract agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04, including the provisions referred to in Section 803(a) of the *Federal Financial Management Improvement Act of 1996* (FFMIA). However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests of compliance described in the preceding paragraph of this report, exclusive of those referred to in FFMIA, disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 07-04.

Under FFMIA, we are required to report whether ATF's financial management systems substantially comply with federal financial management system requirements, applicable federal accounting standards, and application of the United States Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA Section 803(a) requirements.

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

This report is intended solely for the information and use of ATF's management, DOJ Office of the Inspector General, OMB, U.S. Government Accountability Office, and the U.S. Congress; it is not intended to be and should not be used by anyone other than these specified parties.

COTTON & COMPANY LLP

A handwritten signature in black ink that reads "Catherine L. Nocera". The signature is written in a cursive, flowing style.

Catherine L. Nocera, CPA, CISA
Partner

November 4, 2011
Alexandria, Virginia

**Principal Financial Statements
and Related Notes**

See Independent Auditors' Report on Financial Statements

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U.S. Department of Justice
Bureau of Alcohol, Tobacco, Firearms and Explosives
Consolidated Balance Sheets
As of September 30, 2011 and 2010

Dollars in Thousands	2011	2010
ASSETS (Note 2)		
Intragovernmental		
Fund Balance with U.S. Treasury (Note 3)	\$ 241,768	\$ 261,136
Accounts Receivable (Note 5)	27,803	28,291
Other Assets (Note 8)	7,643	14,349
Total Intragovernmental	<u>277,214</u>	<u>303,776</u>
Cash and Monetary Assets (Note 4)	68,184	49,009
Accounts Receivable, Net (Note 5)	256	162
General Property, Plant and Equipment, Net (Note 7)	210,262	207,118
Advances and Prepayments	786	1,669
Total Assets	<u><u>\$ 556,702</u></u>	<u><u>\$ 561,734</u></u>
LIABILITIES (Note 9)		
Intragovernmental		
Accounts Payable	\$ 14,942	\$ 14,803
Accrued Federal Employees' Compensation Act Liabilities	20,074	19,567
Other Liabilities (Note 12)	10,474	9,393
Total Intragovernmental	<u>45,490</u>	<u>43,763</u>
Accounts Payable	45,450	45,744
Actuarial Federal Employees' Compensation Act Liabilities	110,697	107,012
Accrued Payroll and Benefits	34,276	31,560
Accrued Annual and Compensatory Leave Liabilities	51,897	52,408
Seized Cash and Monetary Instruments (Notes 4 and 11)	3,527	3,010
Contingent Liabilities (Note 13)	-	3,505
Capital Lease Liabilities (Note 10)	1,071	1,875
Other Liabilities (Note 12)	59,905	41,416
Total Liabilities	<u><u>\$ 352,313</u></u>	<u><u>\$ 330,293</u></u>
NET POSITION		
Unexpended Appropriations - All Other Funds	\$ 174,210	\$ 202,183
Cumulative Results of Operations - All Other Funds	30,179	29,258
Total Net Position	<u><u>\$ 204,389</u></u>	<u><u>\$ 231,441</u></u>
Total Liabilities and Net Position	<u><u>\$ 556,702</u></u>	<u><u>\$ 561,734</u></u>

The accompanying notes are an integral part of these financial statements.

U.S. Department of Justice
Bureau of Alcohol, Tobacco, Firearms and Explosives
Consolidated Statements of Net Cost
For the Fiscal Years Ended September 30, 2011 and 2010

Dollars in Thousands

	FY	Gross Costs			Less: Earned Revenues			Net Cost of Operations (Note 14)
		Intra-governmental	With the Public	Total	Intra-governmental	With the Public	Total	
Goal 1	2011	\$ -	\$ 5,649	\$ 5,649	\$ -	\$ -	\$ -	\$ 5,649
	2010	\$ -	\$ 7,185	\$ 7,185	\$ -	\$ -	\$ -	\$ 7,185
Goal 2	2011	381,239	886,810	1,268,049	90,650	650	91,300	1,176,749
	2010	365,344	900,590	1,265,934	90,417	742	91,159	1,174,775
Total	2011	<u>\$ 381,239</u>	<u>\$ 892,459</u>	<u>\$ 1,273,698</u>	<u>\$ 90,650</u>	<u>\$ 650</u>	<u>\$ 91,300</u>	<u>\$ 1,182,398</u>
	2010	<u>\$ 365,344</u>	<u>\$ 907,775</u>	<u>\$ 1,273,119</u>	<u>\$ 90,417</u>	<u>\$ 742</u>	<u>\$ 91,159</u>	<u>\$ 1,181,960</u>

Goal 1 Prevent Terrorism and Promote the Nation's Security

Goal 2 Prevent Crime, Enforce Federal Laws, and Represent the Rights and Interests of the American People

The accompanying notes are an integral part of these financial statements.

U.S. Department of Justice
Bureau of Alcohol, Tobacco, Firearms and Explosives
Consolidated Statements of Changes in Net Position
For the Fiscal Years Ended September 30, 2011 and 2010

Dollars in Thousands	2011	2010
Unexpended Appropriations		
Beginning Balances	\$ 202,183	\$ 183,607
Budgetary Financing Sources		
Appropriations Received	1,114,772	1,158,272
Appropriations Transferred-In/Out	(7,892)	(3,318)
Other Adjustments	(2,231)	-
Appropriations Used	(1,132,622)	(1,136,378)
Total Budgetary Financing Sources	<u>(27,973)</u>	<u>18,576</u>
Unexpended Appropriations	<u>\$ 174,210</u>	<u>\$ 202,183</u>
Cumulative Results of Operations		
Beginning Balances	\$ 29,258	\$ 33,169
Budgetary Financing Sources		
Appropriations Used	1,132,622	1,136,378
Other Financing Sources		
Transfers-In/Out Without Reimbursement	3,153	2,407
Imputed Financing from Costs Absorbed by Others (Note 15)	47,544	39,264
Total Financing Sources	<u>1,183,319</u>	<u>1,178,049</u>
Net Cost of Operations	<u>(1,182,398)</u>	<u>(1,181,960)</u>
Net Change	921	(3,911)
Cumulative Results of Operations	<u>\$ 30,179</u>	<u>\$ 29,258</u>
Net Position	<u>\$ 204,389</u>	<u>\$ 231,441</u>

The accompanying notes are an integral part of these financial statements.

U.S. Department of Justice
Bureau of Alcohol, Tobacco, Firearms and Explosives
Combined Statements of Budgetary Resources
For the Fiscal Years Ended September 30, 2011 and 2010

Dollars in Thousands	2011	2010
Budgetary Resources		
Unobligated Balance, Brought Forward, October 1	\$ 110,131	\$ 82,195
Recoveries of Prior Year Unpaid Obligations	21,159	38,221
Budget Authority		
Appropriations Received	1,114,772	1,158,272
Spending Authority from Offsetting Collections		
Earned		
Collected	95,965	81,707
Change in Receivables from Federal Sources	(488)	9,679
Change in Unfilled Customer Orders		
Without Advance from Federal Sources	(10,057)	1,509
Subtotal Budget Authority	<u>1,200,192</u>	<u>1,251,167</u>
Nonexpenditure Transfers, Net, Actual	(7,892)	(3,318)
Permanently not Available	<u>(2,231)</u>	<u>-</u>
Total Budgetary Resources (Note 16)	<u>\$ 1,321,359</u>	<u>\$ 1,368,265</u>

The accompanying notes are an integral part of these financial statements.

U.S. Department of Justice
Bureau of Alcohol, Tobacco, Firearms and Explosives
Combined Statements of Budgetary Resources (Continued)
For the Fiscal Years Ended September 30, 2011 and 2010

Dollars in Thousands	2011	2010
Status of Budgetary Resources		
Obligations Incurred		
Direct	\$ 1,174,282	\$ 1,155,484
Reimbursable	86,110	102,650
Total Obligations Incurred (Note 16)	<u>1,260,392</u>	<u>1,258,134</u>
Unobligated Balance - Available		
Apportioned	38,931	53,461
Total Unobligated Balance - Available	<u>38,931</u>	<u>53,461</u>
Unobligated Balance not Available	<u>22,036</u>	<u>56,670</u>
Total Status of Budgetary Resources	<u>\$ 1,321,359</u>	<u>\$ 1,368,265</u>
Change in Obligated Balance		
Obligated Balance, Net - Brought Forward, October 1		
Unpaid Obligations	\$ 226,042	\$ 238,351
Less: Uncollected Customer Payments from Federal Sources	<u>70,397</u>	<u>59,209</u>
Total Unpaid Obligated Balance, Net - Brought Forward, October 1	155,645	179,142
Obligations Incurred, Net	1,260,392	1,258,134
Less: Gross Outlays	1,219,844	1,232,222
Less: Recoveries of Prior Year Unpaid Obligations, Actual	21,159	38,221
Change in Uncollected Customer Payments from Federal Sources	10,545	(11,188)
 Obligated Balance, Net - End of Period		
Unpaid Obligations	245,431	226,042
Less: Uncollected Customer Payments from Federal Sources	<u>59,852</u>	<u>70,397</u>
Total Unpaid Obligated Balance, Net - End of Period	<u>\$ 185,579</u>	<u>\$ 155,645</u>
Net Outlays		
Gross Outlays	\$ 1,219,844	\$ 1,232,222
Less: Offsetting Collections	95,965	81,707
Less: Distributed Offsetting Receipts (Note 16)	<u>3,892</u>	<u>622</u>
Total Net Outlays (Note 16)	<u>\$ 1,119,987</u>	<u>\$ 1,149,893</u>

The accompanying notes are an integral part of these financial statements.

U.S. Department of Justice
Bureau of Alcohol, Tobacco, Firearms and Explosives
Combined Statements of Custodial Activity
For the Fiscal Years Ended September 30, 2011 and 2010

Dollars in Thousands	2011	2010
Revenue Activity		
Sources of Cash Collections		
Fees and Licenses	\$ 17,437	\$ 13,985
Fines, Penalties and Restitution Payments - Civil	20	22
Fines, Penalties and Restitution Payments - Criminal	95	44
Miscellaneous	3,892	623
	<hr/>	<hr/>
Total Cash Collections	21,444	14,674
Accrual Adjustments	<hr/> 26	<hr/> 60
Total Custodial Revenue	21,470	14,734
Disposition of Collections		
Transferred to Federal Agencies		
U.S. Department of the Treasury	(21,138)	(14,345)
Refunds and Other Payments	(332)	(389)
	<hr/>	<hr/>
Net Custodial Activity (Note 17)	<hr/> <hr/> \$ -	<hr/> <hr/> \$ -

The accompanying notes are an integral part of these financial statements.

Notes to the Financial Statements
(Dollars in Thousands, Except as Noted)

1. Summary of Significant Accounting Policies

A. Reporting Entity

The Bureau of Alcohol, Tobacco, Firearms and Explosives (ATF or the Bureau), a principal law enforcement agency, is within the Department of Justice (DOJ or the Department). ATF's mission is to reduce violent crime, prevent terrorism, and promote the Nation's security. The men and women of ATF perform the dual responsibilities of enforcing Federal criminal laws and regulating the firearms and explosive industries.

B. Basis of Presentation

These financial statements have been prepared from the books and records of ATF in accordance with United States generally accepted accounting principles issued by the Federal Accounting Standards Advisory Board (FASAB) and presentation guidelines in the Office of Management and Budget (OMB) Circular A-136, "Financial Reporting Requirements." These financial statements are different from the financial reports prepared pursuant to OMB directives which are used to monitor and control the use of ATF's budgetary resources.

Throughout these financial statements, intragovernmental assets, liabilities, earned revenues, and costs have been classified according to the type of entity with which the transactions are made. Intragovernmental assets and liabilities are those from or to other Federal entities. Intragovernmental earned revenues are collections or accruals of revenue from other Federal entities and intragovernmental costs are payments or accruals of payments to other Federal entities.

To ensure that ATF's financial statements are meaningful at the entity level and to enhance reporting consistency within the Department, Other Assets and Other Liabilities as defined by OMB Circular A-136 have been disaggregated on the balance sheet. These include Advances and Prepayments, Accrued Federal Employees' Compensation Act Liabilities, Accrued Payroll and Benefits, Accrued Annual and Compensatory Leave Liabilities, Seized Cash and Monetary Instruments, Capital Lease Liabilities and Contingent Liabilities.

1. Summary of Significant Accounting Policies (continued)

C. Basis of Consolidation

The consolidated/combined financial statements include the accounts of ATF. All significant proprietary intra-entity transactions and balances have been eliminated in consolidation. The Statements of Budgetary Resources and Statements of Custodial Activity are combined statements for FYs 2011 and 2010, and as such, intra-entity transactions have not been eliminated.

D. Basis of Accounting

Transactions are recorded on the accrual and budgetary basis of accounting. Under the accrual basis, revenues are recorded when earned and expenses are recorded when incurred, regardless of when cash is exchanged. Under the budgetary basis, however, funds availability is recorded based upon legal considerations and constraints. As a result, certain line items on the proprietary financial statements may not equal similar line items on the budgetary financial statements. The Combined Statements of Custodial Activity are presented on a modified cash basis. Civil and criminal debt collections are recorded when the Department receives payment from debtors to the Federal Government. Accrual adjustments are made related to collections of fees and licenses.

E. Non-Entity Assets

Non-entity assets are those assets that are held by ATF but are not available for use by ATF. Non-entity assets are reported on ATF's Consolidated Balance Sheets as accounts receivable, cash, and other monetary assets. Non-entity accounts receivable consists of taxpayer debts due to ATF. Non-entity assets equal non-entity liabilities. Non-entity assets are not considered a financing source (revenue) available to offset operating expenses of ATF.

F. Fund Balance with U.S. Treasury and Cash

The Department of the Treasury (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.

ATF does not have disbursing authority. ATF maintains cash in commercial banks to facilitate the replenishment of the Bureau's imprest funds as well as seized cash held for evidence, and special operations.

1. Summary of Significant Accounting Policies (continued)

G. Accounts Receivable

Intragovernmental accounts receivable consist of amounts due under reimbursable agreements with Federal entities for services provided by ATF. Accounts receivable due from Federal agencies are considered to be fully collectible. Public accounts receivable consists of employee and vendor accounts receivable. An allowance for doubtful accounts is established for public accounts receivable when it is more likely than not that the accounts receivable will not be collected. The allowance is based on the debtor's ability to pay, debtor's payment record, and probability of recovery.

H. General Property, Plant and Equipment

Personal property and equipment purchased with a cost greater than or equal to \$25,000 (dollars) per unit and a useful life of two years or more, is capitalized and depreciated. Other equipment is expensed when purchased. Real property and leasehold improvements with a cost greater than or equal to \$100,000 (dollars) per unit, and a useful life of two years or more, is capitalized and depreciated. Normal repairs and maintenance are charged to expense as incurred.

ATF also capitalizes internal use software when costs are greater than or equal to \$500,000 (dollars). The same threshold also applies to enhancements that add significant functionality to the software. ATF amortizes business software over seven years and personal productivity software over three years.

As a Bureau under Treasury, ATF's policy was to capitalize bulk purchases that are defined as purchases of multiple similar items that on an individual basis do not meet the capitalization threshold, but when purchased as a lot, exceeded \$250,000 (dollars). This policy was consistent with Treasury's policy. The Department does not have a similar policy; therefore, beginning January 24, 2003 (the date of transfer to DOJ), such bulk purchases are no longer capitalized. Due to the large dollar amount of capitalized bulk purchases, ATF has been allowed to let them depreciate over time versus writing them off all at once. ATF has approximately \$97 (net) of bulk purchases remaining in General Property, Plant and Equipment as of September 30, 2011, which will be fully depreciated by the end of FY 2013.

1. Summary of Significant Accounting Policies (continued)

I. Advances and Prepayments

Prepayments are payments made to individuals or other organizations to cover certain periodic expenses before those expenses are incurred. In accordance with Public Law 91-614, ATF participates in the Treasury's Working Capital Fund from which it receives services on a reimbursable basis. Payments made in advance are authorized for services that have been deemed more advantageous and economical when provided centrally. Advances and prepayments involving other Federal agencies are classified as Other Assets on the Balance Sheet.

ATF prepaid to the General Services Administration (GSA) \$28,441 in costs related to the construction of its new headquarters building. Those prepaid costs were considered construction in progress and land acquisition when they occurred. ATF does not hold title to the land. The building was substantially complete in FY 2007 and the prepaid costs were transferred out of construction in progress and land and recognized as a prepayment. The prepaid costs are being expensed over five years in accordance with rent credits specified in the GSA occupancy agreement.

J. Forfeited and Seized Property

ATF seizes property in consequence of a violation of public law. Generally, seized property includes monetary instruments, various types of weapons, ammunition and explosives. Seized property can be held for evidence, forfeited, or destroyed. All property seized for evidence is maintained by ATF. This property is recorded at the estimated fair market value at the time of the seizure and is not adjusted for any subsequent increases and decreases in estimated fair value. ATF discloses the value of personal property when the individual item seized is worth \$1,000 (dollars) or more at the time of seizure. Seized cash is recorded as an asset under Cash and Monetary Assets. The offsetting liability is recorded under Seized Cash and Monetary Instruments.

ATF also participates in the DOJ Assets Forfeiture Fund (the Fund). ATF is reimbursed by the Fund for carrying out forfeiture activities. ATF contributes forfeited property to the Fund. Firearms that are seized for forfeiture are either returned, destroyed, or placed into official use. Non-prohibited property includes property such as real estate, vehicles, cash, Title I Firearms (as defined in Title 18 USC Section 922(a) (3)), ammunition and other personal property that is in itself legal to possess. Title 18 USC 3051 and the regulations therein, prohibit the sale of firearms or the transfer of firearms owned by the United States to anyone other than another Federal government entity. ATF's seized prohibited property (contraband) may include illegal drugs and untaxed liquor. All other types of property are legal to possess, however, the possessor may be prohibited from possession.

1 Summary of Significant Accounting Policies (continued)

J. Forfeited and Seized Property (continued)

Quantities of illegal drugs and firearms held as evidence are disclosed in Note 6 in accordance with Statement of Federal Financial Accounting Standards (SFFAS) No. 3, Accounting for Inventory and Related Property, and Federal Financial Accounting and Auditing Technical Release No. 4, Reporting on Non-Valued Seized and Forfeited Property. Reported quantities of drugs include only substances over one kilogram (KG) that are laboratory-analyzed and confirmed.

K. Liabilities

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. However, no liability can be paid by ATF without an appropriation. Liabilities for which an appropriation has not been enacted, and for which there is uncertainty an appropriation will be enacted, are classified as liabilities not covered by budgetary resources. Also, liabilities of ATF arising from other than contracts can be abrogated by the Government acting in its sovereign capacity.

Intragovernmental liabilities consist of amounts payable to the Treasury for custodial fees collected by ATF, payables to other Federal agencies, and accrued FECA charges. In addition, public liabilities are amounts due to be refunded to taxpayers and other payables due to public vendors.

Other Liabilities consists primarily of project generated proceeds. The proceeds will be transferred to the Department of the Treasury General Fund at the conclusion of the project.

L. Contingencies and Commitments

ATF is party to various administrative proceedings, legal actions, and claims. The balance sheet includes an estimated liability for those legal actions where management and the Chief Counsel consider adverse decisions “probable” and amounts are reasonably estimable. Legal actions where management and the Chief Counsel consider adverse decisions “probable” or “reasonably possible” and the amounts are reasonably estimable are disclosed in Note 13, Contingencies and Commitments. However, there are cases where amounts have not been accrued or disclosed because the amounts of the potential loss cannot be estimated or the likelihood of an unfavorable outcome is considered “remote.”

1. Summary of Significant Accounting Policies (continued)

M. Annual, Sick, and Other Leave

Annual and compensatory leave earned by ATF employees, but not yet used, is reported as an accrued liability. Annual leave is accrued as it is earned by employees and is included in personnel compensation and benefit costs. An unfunded liability is recognized for earned but unused annual leave since from a budgetary standpoint, this annual leave will be paid from future appropriations when the leave is used by employees rather than from amounts that were appropriated to ATF as of the date of the financial statements. The amount accrued is based upon current pay rates of the employees. Sick leave and other types of leave are expensed when used and no liability is recognized for these amounts, as employees do not vest in these benefits.

N. Interest on Late Payments

Pursuant to the Prompt Payment Act, 31 U.S.C. § 3901-3907, Federal agencies must pay interest on payments for goods or services made to business concerns after the due date. The due date is generally 30 days after receipt of a proper invoice and acceptance of the goods or services.

O. Retirement Plans

Most ATF employees hired prior to January 1, 1984 participate in the Civil Service Retirement System (CSRS), to which ATF contributes 7 percent of basic pay (7.5 percent for those personnel classified as law enforcement agents) and the employee contributes 7 percent (7.5 percent for those personnel classified as law enforcement agents) for a total contribution rate of 14 percent in both FYs 2011 and 2010 (15 percent for those personnel classified as law enforcement agents). 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. For most employees hired after December 31, 1983, ATF also contributes the employer's matching share of Social Security. For the FERS basic benefit, the employee contributes 0.8 percent of basic pay (1.3 percent for those personnel classified as law enforcement agents) while ATF contributes 11.7 percent (25.7 percent for those personnel classified as law enforcement agents). The total contribution was 12.5 percent in FY 2011 (27.0 percent for those personnel classified as law enforcement agents). The cost of providing a FERS basic benefit as provided by the Office of Personnel Management (OPM) is equal to the amounts contributed by ATF and the employees because the plan is fully funded.

1. Summary of Significant Accounting Policies (continued)

O. Retirement Plans (continued)

All employees are eligible to contribute to the Thrift Savings Plan (TSP). For those employees participating in FERS, a TSP account is automatically established, and ATF makes a mandatory one percent contribution to this account.

In addition, ATF makes matching contributions, ranging from one to four percent, for FERS eligible employees who contribute to their TSP accounts. Matching contributions are not made to the TSP accounts established by CSRS employees.

ATF recognizes the full cost of providing future pension and other retirement benefits (ORB) for current employees as required by the Statements of Federal Financial Accounting Standards (SFFAS) No. 5, "Accounting for Liabilities of the Federal Government." Full cost includes pension and ORB contributions paid out of Bureau appropriations and costs financed by the OPM. Costs financed by OPM are also reported in the accompanying financial statements as an imputed financing revenue source.

Reporting amounts such as plan assets, accumulated plan benefits, or unfunded liabilities, if any, is the responsibility of OPM.

P. Federal Employee Compensation Benefits

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to covered Federal civilian employees injured on the job and employees who have incurred a work-related injury or occupational disease. The future workers' compensation estimates were generated from an application of actuarial procedures developed to estimate the liability for FECA benefits. The actuarial liability estimates for FECA benefits include the expected liability for death, disability, medical and miscellaneous costs for approved compensation cases. The liability is determined using the paid losses extrapolation method, which is calculated over the next 37 year period. This method utilizes historical benefit payment patterns related to a specific incurred period to predict ultimate payments related to that period. The projected annual benefit payments were discounted to present value.

Claims are paid for ATF employees by the Department of Labor (DOL) from the FECA fund, for which ATF reimburses DOL. The accrued liability represents claims paid by DOL for ATF employees, for which the fund has not been reimbursed. The actuarial liability is an estimate of future costs to be paid on claims made by ATF employees. The estimated future cost is not obligated against budgetary resources until the year in which the cost is billed to ATF.

1. Summary of Significant Accounting Policies (continued)

Q. Intragovernmental Activity

Intragovernmental costs and exchange revenue represent transactions made between two reporting entities within the Federal government. Costs and earned revenues with the public represent exchange transactions made between the reporting entity and a non-federal entity. The classification of revenue or cost as “intragovernmental” or “with the public” is defined on a transaction-by-transaction basis. The purpose of this classification is to enable the Federal government to prepare consolidated financial statements, not to match public and intragovernmental revenue with the costs incurred to produce public and intragovernmental revenue.

R. Revenues and Other Financing Sources

(1) Exchange Revenues

Exchange revenues are inflows of resources to a government entity that the entity has earned by providing something of value to the public or another government entity at a price. ATF, currently, has agreements in place which are reimbursed through the Department of Justice Assets Forfeiture Fund. In addition, ATF provides a number of services including law enforcement, training and professional development, and science and information technology to other government agencies through reimbursable agreements. Exchange revenues are presented on the Consolidated Statements of Net Cost.

Most of ATF’s exchange revenues from other government agencies are from an agreement with the U.S. Department of State to train explosives-detecting canines for foreign countries. The canines are used in foreign countries to combat terrorism and protect American travelers abroad. Similarly, ATF is funded on a reimbursable basis for activity related to enforcement of the Controlled Substances Act.

(2) Nonexchange Revenues

Nonexchange revenues are inflows of resources that the government demands or receives by donation. For ATF, most non-exchange revenues result from collecting fees from firearms and explosives industries. As ATF is unable to keep any of these collections, they are recognized as custodial revenue and a corresponding liability when collected.

1. Summary of Significant Accounting Policies (continued)

(2) Nonexchange Revenues (continued)

Nonexchange revenues are presented on the Combined Statements of Custodial Activity as all amounts are transferred to the Treasury General Fund.

(3) Other Financing Sources

Other financing sources provide inflows of resources during the reporting period and include appropriations used and financing imputed with respect to any cost subsidies. Unexpended appropriations are recognized separately in determining net position but are not financing sources until used.

ATF receives the majority of the funding needed to support its operations through congressional appropriations. The appropriations received are annual, multi-year, and no-year funding that may be used, within statutory limits, for operating and capital expenditures (primarily equipment, furniture, and furnishings). Appropriations are also received to meet specific program objectives. The Bureau's activities are funded by the following:

- 15110700 - *Salaries and Expenses Appropriation and Reimbursable Authority*
- 15X0700 - *No-year Salaries and Expenses and Spectrum Relocation Fund*
- 15X0720 - *No year Appropriation for Construction Funding*
- 1510/110700 - *Southwest Border Supplemental*
- 1511/120700 - *Two-year Appropriation for High Intensity Drug Trafficking Area Initiative*
- 15X8526 - *Microstamping*

1. Summary of Significant Accounting Policies (continued)

(3) Other Financing Sources (continued)

All of these appropriations and the related gross costs, revenues, and net costs as shown in the Consolidated Statements of Net Cost are in Federal budget functional classification 750, Administration of Justice. The accompanying financial statements include the accounts of the above six Treasury symbols as well as eleven expired funds which are under ATF control.

Appropriations are recognized as a financing source at the time the related program or administrative expenditure is incurred. Costs financed by other Federal entities on behalf of ATF are recognized as imputed financing sources as required by SFFAS No. 5.

Other financing sources also include non-financial distributions, such as seized property, received by ATF from the DOJ Assets Forfeiture Fund. These resources are used in law enforcement initiatives.

S. Earmarked Funds

Statement of Federal Financial Accounting Standards (SFFAS) No. 27, “Identifying and Reporting Earmarked Funds” defines ‘earmarked funds’ as being financed by specifically identified revenues, often supplemented by other financing sources, which remain available over time. These specifically identified revenues and other financing sources are required by statute to be used for designated activities, benefits, or purposes, and must be accounted for separately from the Government’s general revenues. The three required criteria for an earmarked fund are:

1. A statute committing the Federal Government to use specifically identified revenues and other financing sources only for designated activities, benefits, or purposes;
2. Explicit authority for the earmarked fund to retain revenues and other financing sources not used in the current period for future use to finance the designated activities, benefits, or purposes; and
3. A requirement to account for and report on the receipt, use, and retention of the revenues and other financing sources that distinguishes the earmarked fund from the Government’s general revenues.

ATF does not have any funds that meet the definition of an Earmarked Fund.

1. Summary of Significant Accounting Policies (continued)

T. Tax Exempt Status

As an agency of the Federal Government, ATF is exempt from all income taxes imposed by any governing body whether it be a Federal, state, commonwealth, local, or foreign government.

U. Use of Estimates

The preparation of financial statements requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

V. Reclassifications

The FY 2010 financial statements were reclassified to conform to the FY 2011 Departmental financial statement presentation requirements. The reclassifications had no material effect on total assets, liabilities, net position, change in net position or budgetary resources as previously reported.

W. Subsequent Events

Subsequent events and transactions occurring after September 30, 2011 through the date of the auditors' opinion have been evaluated for potential recognition or disclosure in the financial statements. The date of the auditors' opinion also represents the date that the financial statements were available to be issued.

2. Non-Entity Assets

Non-entity assets are assets that are held by ATF but are not available for use by ATF. Non-entity assets are primarily project-generated proceeds and seized cash.

As of September 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
With the Public		
Cash and Monetary Assets	\$ 63,406	\$ 44,372
Total Entity Assets	<u>493,296</u>	<u>517,362</u>
Total Assets	<u>\$ 556,702</u>	<u>\$ 561,734</u>

3. Fund Balance with U.S. Treasury

As of September 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Fund Balances		
Trust Funds	\$ 1,029	\$ 1,029
General Funds	<u>240,739</u>	<u>260,107</u>
Total Fund Balances with U.S. Treasury	<u>\$ 241,768</u>	<u>\$ 261,136</u>
Status of Fund Balances		
Unobligated Balance - Available	\$ 38,931	\$ 53,461
Unobligated Balance - Unavailable	22,036	56,670
Obligated Balance not yet Disbursed	185,579	155,645
Other Funds (With)/Without Budgetary Resources	<u>(4,778)</u>	<u>(4,640)</u>
Total Status of Fund Balances	<u>\$ 241,768</u>	<u>\$ 261,136</u>

As of September 30, 2011 and 2010, Other Funds (With)/Without Budgetary Resources consisted of amounts held in other entity funds as Agent Cashier.

4. Cash and Monetary Assets

As of September 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash		
Imprest Funds	\$ 4,778	\$ 4,637
Other Cash	<u>59,879</u>	<u>41,362</u>
	<u>64,657</u>	<u>45,999</u>
Monetary Assets		
Seized Monetary Instruments	<u>3,527</u>	<u>3,010</u>
Total Cash and Monetary Assets	<u>\$ 68,184</u>	<u>\$ 49,009</u>

Cash available for ATF use represents agent cashier (imprest) funds. The agent cashier funds are used to finance the purchase of evidence and information from informants in open ATF investigations and enforcement operations. Other Cash consists of project – generated proceeds from undercover operations.

5. Accounts Receivable

As of September 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Intragovernmental		
Accounts Receivable	\$ 27,803	\$ 28,291
With the Public		
Accounts Receivable	315	203
Allowance for Uncollectible Accounts	<u>(59)</u>	<u>(41)</u>
Total With the Public	<u>256</u>	<u>162</u>
Total Accounts Receivable	<u>\$ 28,059</u>	<u>\$ 28,453</u>

Intragovernmental accounts receivable consist of amounts due under reimbursable agreements with Federal entities for services provided by ATF. Accounts receivable due from Federal agencies are considered to be fully collectible. Public accounts receivable consist of employee and vendor accounts receivables.

6. Seized Property

Property is seized during the course of an investigation. This property is considered contraband, evidence of a crime, or subject to forfeiture. All seized for forfeiture property is reported by the DOJ Assets Forfeiture Fund. The seized for evidence personal property category includes computers, vehicles, and other miscellaneous items. Other seized property includes monetary instruments, handguns, machine guns, rifles and shotguns. Seized property that will be destroyed, such as firearms, is reported as the number of items seized, and is not considered to have a value.

Seized monetary instruments were valued at \$3,527 as of September 30, 2011, and \$3,010 as of September 30, 2010. Seized cash deposited is recorded as an asset under cash and monetary assets along with the offsetting liability under seized cash and monetary instruments.

6. Seized Property (continued)

For the Fiscal Year Ended September 30, 2011

Seized Property Category		Beginning Balance	Adjust- ments	Seizures	Disposals	Ending Balance
Seized for Evidence						
Seized Cash Deposited and Seized Monetary Instruments						
	Value	\$ 3,010	\$ -	\$ 6,789	\$ 6,272	\$ 3,527
Personal Property						
	Number	177	(105) *	6	36	42
	Value	\$ 1,725	\$ (977)	\$ 38	\$ 496	\$ 290
Non-Valued Firearms						
	Number	13,445	7,307 **	10,150	996	29,906

*Adjustments for personal property are items determined to be seized for forfeiture, that in prior years were included in the seized evidence balance.

**Adjustments for non-valued firearms are items determined to be seized for evidence that were not included in the seized for evidence balance in prior years.

For the Fiscal Year Ended September 30, 2010

Seized Property Category		Beginning Balance	Adjust- ments	Seizures	Disposals	Ending Balance
Seized for Evidence						
Seized Cash Deposited and Seized Monetary Instruments						
	Value	\$ 2,436	\$ -	\$ 8,528	\$ 7,954	\$ 3,010
Personal Property						
	Number	180	1 *	13	17	177
	Value	\$ 1,886	\$ 11	\$ 84	\$ 256	\$ 1,725
Non-Valued Firearms						
	Number	14,174	-	5,213	5,942	13,445

* Adjustments include property status and valuation changes received after, but properly credited to FY 2009.

6. Seized Property (continued)

Method of Disposition of Seized Property:

During FY 2011 and 2010, \$496 and \$256 of valued property seized for evidence were returned to parties with a bonafide interest, and \$6,272 and \$7,954 were either released to a designated party or transferred to the appropriate federal entity under forfeiture or abandonment proceedings. Non-valued property was primarily disposed of through destruction.

7. General Property, Plant and Equipment, Net

As of September 30, 2011	Acquisition Cost	Accumulated Depreciation	Net Book Value	Service Life
Land and Land Rights	\$ 3,200	\$ -	\$ 3,200	N/A
Improvements to Land	4,584	(866)	3,718	15 yrs
Construction in Progress	2,216	-	2,216	N/A
Buildings, Improvements, and Renovations	137,018	(23,566)	113,452	40 yrs
Vehicles	42,586	(29,410)	13,176	3-6 yrs
Equipment	84,161	(71,761)	12,400	3-10 yrs
Assets Under Capital Lease	3,497	(1,916)	1,581	5-6 yrs
Leasehold Improvements	120,026	(75,412)	44,614	2-20 yrs
Internal Use Software	19,003	(11,240)	7,763	3-7 yrs
Internal Use Software in Development	8,142	-	8,142	N/A
Total	\$ 424,433	\$ (214,171)	\$ 210,262	

As of September 30, 2010	Acquisition Cost	Accumulated Depreciation	Net Book Value	Service Life
Land and Land Rights	\$ 3,200	\$ -	\$ 3,200	N/A
Improvements to Land	4,518	(552)	3,966	15 yrs
Construction in Progress	30,397	-	30,397	N/A
Buildings, Improvements, and Renovations	104,897	(20,224)	84,673	40 yrs
Vehicles	42,131	(27,684)	14,447	3-6 yrs
Equipment	91,139	(82,241)	8,898	3-10 yrs
Assets Under Capital Lease	5,550	(2,466)	3,084	5-6 yrs
Leasehold Improvements	112,649	(66,926)	45,723	2-20 yrs
Internal Use Software	19,048	(9,182)	9,866	3-7 yrs
Internal Use Software in Development	2,864	-	2,864	N/A
Total	\$ 416,393	\$ (209,275)	\$ 207,118	

7. General Property, Plant and Equipment, Net (continued)

	<u>2011</u>	<u>2010</u>
Net Changes from Federal Sources		
Construction in Progress	\$ 1,727	\$ 16,001
Buildings, Improvements, and Renovations	3,739	14
Vehicles	848	3,407
Equipment	(768)	651
Leasehold Improvements	3,866	1,635
Internal Use Software	-	741
Total purchased from Federal Sources	<u>\$ 9,412</u>	<u>\$ 22,449</u>
Net Changes from the Public		
Construction in Progress	\$ (244)	\$ 468
Buildings, Improvements, and Renovations	133	-
Vehicles	1,983	-
Equipment	7,998	4,837
Assets Under Capital Lease	-	173
Leasehold Improvements	2,161	180
Internal Use Software	5,234	3,347
Total purchased from the Public	<u>17,265</u>	<u>9,005</u>
Total Capitalized Purchases	<u>\$ 26,677</u>	<u>\$ 31,454</u>

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. ATF owns land located in Ammdale, Maryland that is recorded at its acquisition value. There are no restrictions on the use or convertibility of property and equipment.

8. Other Assets

As of September 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Intragovernmental		
Advances and Prepayments	\$ 7,615	\$ 14,294
Other Intragovernmental Assets	<u>28</u>	<u>55</u>
Total Other Assets	<u>\$ 7,643</u>	<u>\$ 14,349</u>

As of September 30, 2011, prepayments consisted of \$5,688 to General Services Administration (GSA), \$1,715 to Treasury Working Capital Fund (WCF), \$149 Office of Justice Programs and \$63 to Department of Defense. The remaining \$28 was due to ATF from Treasury's General Fund. September 30, 2010, prepayments consisted of \$11,376 to GSA, \$2,862 to WCF, and \$56 to Department of Defense. The remaining \$55 was due to ATF from Treasury's General Fund.

9. Liabilities not Covered by Budgetary Resources

As of September 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Intragovernmental		
Accrued FECA Liabilities	\$ 20,074	\$ 19,567
Other Post-Employment Benefits Due and Payable	-	58
Other Unfunded Employment Related Liabilities	51	32
Total Intragovernmental	<u>20,125</u>	<u>19,657</u>
With the Public		
Actuarial FECA Liabilities	110,697	107,012
Accrued Annual and Compensatory Leave Liabilities	51,897	52,408
Contingent Liabilities (Note 13)	-	3,505
Total With the Public	<u>162,594</u>	<u>162,925</u>
Total Liabilities not Covered by Budgetary Resources	<u>182,719</u>	<u>182,582</u>
Total Liabilities Covered by Budgetary Resources	<u>169,594</u>	<u>147,711</u>
Total Liabilities	<u>\$ 352,313</u>	<u>\$ 330,293</u>

Generally, liabilities not covered by budgetary resources are liabilities for which Congressional action is needed before budgetary resources can be provided. However, some liabilities do not require appropriations and will be liquidated by the assets of the entities holding these liabilities. Such assets include civil and criminal debt collections, seized cash and monetary instruments, and project generated proceeds.

10. Leases

As of September 30, 2011 and 2010

Capital Leases	<u>2011</u>	<u>2010</u>
Summary of Assets Under Capital Lease		
Machinery and Equipment	\$ 3,497	\$ 5,550
Accumulated Depreciation	<u>1,916</u>	<u>2,466</u>
Total Assets Under Capital Lease (Note 7)	<u>\$ 1,581</u>	<u>\$ 3,084</u>

Future Capital Lease Payments Due

<u>Fiscal Year</u>	<u>Machinery and Equipment</u>
2012	884
2013	<u>557</u>
Total Future Capital Lease Payments	\$ 1,441
Less: Imputed Interest	(24)
Less: Executory Costs	<u>(346)</u>
FY 2011 Net Capital Lease Liabilities	<u>\$ 1,071</u>
FY 2010 Net Capital Lease Liabilities	<u>\$ 1,875</u>

	<u>2011</u>	<u>2010</u>
Net Capital Lease Liabilities Covered by Budgetary Resources	\$ 1,071	\$ 1,875

The capital leases are comprised of a computer server and 257 postage meters as well as associated equipment. The total capital asset value is \$3,497 with accumulated depreciation of \$1,916. As of September 30, 2011 capital lease liability for machinery and equipment was \$1,071. ATF expects to own the computer server at the end of the lease period. The postal equipment, with the exception of the meters, is leased to own. The meters remain property of the United States Postal Service.

The lease on the server will be amortized through FY 2012 and includes a bargain purchase price of \$35. The postal meter lease amortizes through FY 2013.

10. Leases (continued)

As of September 30, 2011 and 2010

Future Noncancelable Operating Lease Payments

<u>Fiscal Year</u>	<u>Buildings</u>
2012	3,026
2013	3,016
2014	3,037
2015	3,059
2016	3,061
After 2016	<u>4,857</u>
Total Future Noncancelable Operating Lease Payments	<u>\$ 20,056</u>

11. Seized Cash and Monetary Instruments

ATF's seized monetary instruments were \$3,527 as of September 30, 2011, and \$3,010 as of September 30, 2010. All of this cash is seized in the course of law enforcement activities and is held as evidence pending the outcome of any criminal proceedings.

12. Other Liabilities

As of September 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Intragovernmental		
Employer Contributions and Payroll Taxes Payable	\$ 10,315	\$ 9,303
Other Post-Employment Benefits Due and Payable	108	58
Other Unfunded Employment Related Liabilities	<u>51</u>	<u>32</u>
Total Intragovernmental	<u>10,474</u>	<u>9,393</u>
With the Public		
Accrued Liabilities - Taxpayer/Licensee	26	54
Other Liabilities	<u>59,879</u>	<u>41,362</u>
Total the Public	<u>59,905</u>	<u>41,416</u>
Total Other Liabilities	<u>\$ 70,379</u>	<u>\$ 50,809</u>

All Other Liabilities are considered current. Other Liabilities, with the public, consists of project generated proceeds. The proceeds not subject to forfeiture will be returned to the Department of the Treasury General Fund at the conclusion of the project.

13. Contingencies and Commitments

	Accrued Liabilities	Estimated Range of Loss	
		Lower	Upper
As of September 30, 2011			
Probable	\$ -	\$ -	\$ -
Reasonably Possible		6,000	7,500
As of September 30, 2010			
Probable	\$ 3,505	\$ 3,505	\$ 3,505
Reasonably Possible		6,000	6,000

14. Net Cost of Operations by Suborganization

For the Fiscal Year Ended September 30, 2011

	<u>Suborganizations</u>			
	Firearms	Explosives and Arson	Alcohol and Tobacco	Consolidated
Goal 1: Prevent Terrorism and Promote the Nation's Security				
Cost of Operations	\$ 2,319	\$ 3,269	\$ 61	\$ 5,649
Goal 2: Prevent Crime, Enforce Federal Laws, and Represent the Rights and Interests of the American People				
Gross Cost	958,955	284,639	24,455	1,268,049
Less: Earned Revenue	68,502	21,374	1,424	91,300
Net Cost of Operations	890,453	263,265	23,031	1,176,749
Net Cost of Operations	<u>\$ 892,772</u>	<u>\$ 266,534</u>	<u>\$ 23,092</u>	<u>\$ 1,182,398</u>

14. Net Cost of Operations by Suborganization (continued)

For the Fiscal Year Ended September 30, 2010

	Suborganizations			
	Firearms	Explosives and Arson	Alcohol and Tobacco	Consolidated
Goal 1: Prevent Terrorism and Promote the Nation's Security				
Cost of Operations	\$ 2,339	\$ 4,785	\$ 61	\$ 7,185
Goal 2: Prevent Crime, Enforce Federal Laws, and Represent the Rights and Interests of the American People				
Gross Cost	948,958	292,182	24,794	1,265,934
Less: Earned Revenue	68,189	21,566	1,404	91,159
Net Cost of Operations	880,769	270,616	23,390	1,174,775
Net Cost of Operations	\$ 883,108	\$ 275,401	\$ 23,451	\$ 1,181,960

ATF activity primarily supports DOJ's goal to Prevent Crime, Enforce Federal Laws, and Represent the Rights and Interests of the American People. ATF participation in the Joint Terrorism Task Force and the Terrorist Device Analysis Center supports DOJ's goal to Prevent Terrorism and Promote the Nation's Security. Revenue is not associated with this goal.

15. Imputed Financing from Costs Absorbed by Others

Imputed Inter-Departmental Financing Sources are the unreimbursed (i.e. non-reimbursed and under reimbursed) portion of the full costs of goods and services received by ATF from a providing entity that is not part of the U.S. Department of Justice. In accordance with SFFAS No. 30, “*Inter-Entity Cost Implementation Amending SFFAS No. 4, Managerial Cost Accounting Standards and Concepts*”, the material imputed inter-departmental financing sources recognized by ATF are the actual cost of future benefits for the Federal Employees Health Benefits Program (FEHB), the Federal Employees’ Group Life Insurance Program (FEGLI), the Federal pension plans that are paid by other Federal entities, and any un-reimbursed payments made from the Treasury Judgment Fund on behalf of ATF. The Treasury Judgment Fund was established by the Congress and funded at 31 U.S.C. 1304 to pay in whole or in part the court judgments and settlement agreements negotiated by the Department on behalf of agencies, as well as certain types of administrative awards. Interpretation of Federal Financial Accounting Standards Interpretation No. 2, “*Accounting for Treasury Judgment Fund Transactions*,” requires agencies to recognize liabilities and expenses when unfavorable litigation outcomes are probable, and the amount can be estimated and will be paid by the Treasury Judgment Fund.

SFFAS No. 5, “*Accounting for Liabilities of the Federal Government*,” requires that employing agencies recognize the cost of pensions and other retirement benefits during their employees’ active years of service. SFFAS No. 5 requires OPM to provide cost factors necessary to calculate cost. OPM actuaries calculate the value of pension benefits expected to be paid in the future, and then determine the total funds to be contributed by and for covered employees, such that the amount calculated would be sufficient to fund the projected pension benefits.

The cost to be paid by other agencies is the total calculated future costs, less employee and employer contributions. In addition, other retirement benefits, which include health and life insurance that are paid by other Federal entities, must also be disclosed. Those costs determined to be material are presented in the table below.

15. Imputed Financing Costs Absorbed by Others (continued)

For the Fiscal Years Ended September 30, 2011 and 2010

	2011	2010
Imputed Inter-Departmental Financing		
Treasury Judgment Fund	\$ 1,214	\$ 1,246
Health Insurance	27,099	25,445
Life Insurance	109	107
Pension	19,122	12,466
Total Imputed Inter-Departmental	\$ 47,544	\$ 39,264

Judgment Fund payments for FY 2011 and FY 2010 were paid by the Treasury on behalf of the ATF.

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. Based on cost factors provided by OPM, estimated future pension benefits for ATF employees, to be paid by OPM as of September 30, 2011 and September 30, 2010, are included in the chart above. Similarly, OPM, rather than ATF, reports liabilities for future payments to retired employees who participate in the Federal Employee Health Benefits (FEHB) and the Federal Employee Group Life Insurance (FEGLI) Program. The FY 2011 and FY 2010 FEHBP cost factors applied to a weighted average number of employees enrolled in the FEHBP was \$6,027 (dollars) and \$5,678 (dollars), respectively. The FEGLI cost factors for employees enrolled in the FEGLI program, as provided by OPM, was .02 percent of their basic pay.

Imputed Intra-Departmental Financing Sources as defined in SFFAS No. 4, “*Managerial Cost Accounting Concepts and Standards for the Federal Government*,” are the unreimbursed portion of the full costs of goods and services received by ATF from a providing entity that is part of the U.S. Department of Justice. Recognition is required for those transactions determined to be material to the receiving entity. The determination of whether the cost is material requires considerable judgment based on the specific facts and circumstances of each type of good or service provided. SFFAS No. 4 also states that costs for broad and general support need not be recognized by the receiving entity, unless such services form a vital and integral part of the operations or output of the receiving entity. Costs are considered broad and general if they are provided to many, if not all, reporting components and not specifically related to the receiving entity’s output. ATF does not have any imputed Intra-Departmental financing sources.

16. Information Related to the Statement of Budgetary Resources

Apportionment Categories of Obligations Incurred:

The amount of direct and reimbursable obligations against amounts apportioned under Category A and B are reported in the table below. The apportionment categories are determined in accordance with the guidance provided in Part 4 of OMB Circular A-11, "Preparation, Submission and Execution of the Budget." Category A represents resources apportioned for calendar quarters. Category B represents resources apportioned for other time periods; for activities, projects, and objectives or for a combination thereof.

	<u>Direct Obligations</u>	<u>Reimbursable Obligations</u>	<u>Total Obligations Incurred</u>
For the Fiscal Year Ended September 30, 2011			
Obligations Apportioned Under			
Category A	\$ 1,125,706	\$ 86,110	\$ 1,211,816
Category B	48,576	-	48,576
Total	<u>\$ 1,174,282</u>	<u>\$ 86,110</u>	<u>\$ 1,260,392</u>
For the Fiscal Year Ended September 30, 2010			
Obligations Apportioned Under			
Category A	\$ 1,153,606	\$ 102,650	\$ 1,256,256
Category B	1,878	-	1,878
Total	<u>\$ 1,155,484</u>	<u>\$ 102,650</u>	<u>\$ 1,258,134</u>

16. Information Related to the Statement of Budgetary Resources (continued)

Status of Undelivered Orders:

Undelivered Orders (UDO) represent the amount of goods and/or services ordered, which have not been actually or constructively received. This amount includes any orders which may have been prepaid or advanced but for which delivery or performance has not yet occurred.

As of September 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
UDO Obligations Unpaid	\$ 139,274	\$ 124,631
UDO Obligations Prepaid/Advanced	8,401	15,963
Total UDO	<u>\$ 147,675</u>	<u>\$ 140,594</u>

Legal Arrangements Affecting Use of Unobligated Balances:

Unobligated balances represent the cumulative amount of budget authority that is not obligated and that remains available for obligation based on annual legislative requirements and other enabling authorities, unless otherwise restricted. The use of unobligated balances is restricted based on annual legislation requirements and other enabling authorities. Funds are appropriated on an annual, multi-year, and no-year basis. Appropriated funds shall expire on the last day of availability and are no longer available for new obligations. Unobligated balances in unexpired fund symbols are available in the next fiscal year for new obligations unless some restrictions had been placed on those funds by law. Amounts in expired fund symbols are not available for new obligations, but may be used to adjust previously established obligations.

16. Information Related to the Statement of Budgetary Resources (continued)

Statement of Budgetary Resources vs the Budget of the United States Government:

The reconciliation as of September 30, 2011 is not presented because the submission of the Budget of the United States Government (Budget) for FY 2013, which presents the execution of the FY 2011 Budget, occurs after publication of these financial statements. The Department of Justice Budget Appendix can be found on the OMB website (<http://www.whitehouse.gov/omb/budget>) and will be available in early February 2012.

For the Fiscal Year Ended September 30, 2010
 (Dollars in millions)

	<u>Budgetary Resources</u>	<u>Obligations Incurred</u>	<u>Distributed Offsetting Receipts</u>	<u>Net Outlays</u>
Statement of Budgetary Resources (SBR)	\$ 1,368	\$ 1,258	\$ 1	\$ 1,150
Funds not Reported in the Budget				
Expired Funds	(41)	(18)		
Distributed Offsetting Receipts			(1)	1
Budget of the United States Government	<u>\$ 1,327</u>	<u>\$ 1,240</u>	<u>\$ -</u>	<u>\$ 1,151</u>

17. Net Custodial Revenue Activity

As an agent of the federal government and as authorized by 26 U.S.C. § 6301, ATF collects fees from firearms and explosives industries, as well as import, permit and license fees. Special Occupational Taxes are collected from certain firearms businesses. Miscellaneous collections include project-generated proceeds. As ATF is unable to use these collections in its operations, ATF is required to transfer these collections to the Treasury General Fund. The ATF custodial collections totaled \$21,444 and \$14,674 for the fiscal years ended September 30, 2011 and 2010, respectively.

These collections represent the balances in the Combined Statements of Custodial Activity. These authorities are granted under the Gun Control Act, Title XI of the Organized Crime Control Act of 1970, and the Safe Explosives Act. All authorities granted by these laws were transferred from the Department of the Treasury to the Department of Justice under the Homeland Security Act of 2002.

All of the fees collected by ATF net of related refund disbursements are remitted to the Treasury General Fund. The Treasury further distributes this revenue to Federal agencies in accordance with various laws and regulations. There were no custodial liabilities as of September 30, 2011 and 2010.

18. Reconciliation of Net Cost of Operations (proprietary) to Budget (formerly the Statement of Financing)

For the Fiscal Years Ended September 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Resources Used to Finance Activities		
Budgetary Resources Obligated		
Obligations Incurred	\$ 1,260,392	\$ 1,258,134
Less: Spending Authority from Offsetting Collections and Recoveries	<u>106,579</u>	<u>131,116</u>
Obligations Net of Offsetting Collections and Recoveries	1,153,813	1,127,018
Less: Offsetting Receipts	<u>3,892</u>	<u>622</u>
Net Obligations	1,149,921	1,126,396
Other Resources		
Transfers-In/Out Without Reimbursement	3,153	2,407
Imputed Financing from Costs Absorbed by Others (Note 15)	<u>47,544</u>	<u>39,264</u>
Net Other Resources Used to Finance Activities	<u>50,697</u>	<u>41,671</u>
Total Resources Used to Finance Activities	1,200,618	1,168,067
Resources Used to Finance Items not Part of the Net Cost of Operations		
Net Change in Budgetary Resources Obligated for Goods, Services, and Benefits Ordered but not Yet Provided	(17,138)	19,989
Resources That Fund Expenses Recognized in Prior Periods (Note 19)	(4,074)	(192)
Budgetary Offsetting Collections and Receipts That do not Affect Net Cost of Operations	3,892	622
Resources That Finance the Acquisition of Assets	<u>(26,677)</u>	<u>(31,454)</u>
Total Resources Used to Finance Items not Part of the Net Cost of Operations	<u>(43,997)</u>	<u>(11,035)</u>
Total Resources Used to Finance the Net Cost of Operations	\$ 1,156,621	\$ 1,157,032

18. Reconciliation of Net Cost of Operations (proprietary) to Budget (formerly the Statement of Financing) (continued)

For the Fiscal Years Ended September 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Components of Net Cost of Operations That Will not Require or Generate Resources in the Current Period		
Components That Will Require or Generate Resources in Future Periods (Note 19)	\$ 4,117	\$ 5,276
Depreciation and Amortization	23,918	21,466
Revaluation of Assets or Liabilities	(2,258)	(1,814)
Total Components of Net Cost of Operations That Will not Require or Generate Resources in the Current Period	<u>25,777</u>	<u>24,928</u>
Net Cost of Operations	<u>\$ 1,182,398</u>	<u>\$ 1,181,960</u>

19. Explanation of Differences Between Liabilities not Covered by Budgetary Resources and Components of Net Cost of Operations Requiring or Generating Resources in Future Periods

Liabilities that are not covered by realized budgetary resources and for which there is not certainty that budgetary authority will be realized, such as the enactment of an appropriation, are considered liabilities not covered by budgetary resources. These liabilities totaling \$182,719 and \$182,582 on September 30, 2011 and 2010, respectively, are discussed in Note 9, Liabilities not Covered by Budgetary Resources. Decreases in these liabilities result from current year budgetary resources that were used to fund expenses recognized in prior periods. Increases in these liabilities represent unfunded expenses that were recognized in the current period. These increases along with the change in the portion of exchange revenue receivables from the public, which are not considered budgetary resources until collected, represent components of current period net cost of operations that will require or generate budgetary resources in future periods. The changes in liabilities not covered by budgetary resources and receivables generating resources in future periods are comprised of the following:

For the Fiscal Years Ended September 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Resources that Fund Expenses Recognized in Prior Periods		
Decrease in Accrued Annual and Compensatory Leave Liabilities	\$ (511)	\$ -
Other		
Decrease in Accrued FECA Liabilities	-	(184)
Decrease in Contingent Liabilities	(3,505)	-
Decrease in Other Unfunded Employment Related Liabilities	-	(8)
Decrease in Other Post Employment Benefits Due and Payable	(58)	-
Total Other	<u>(3,563)</u>	<u>(192)</u>
Total Resources that Fund Expenses Recognized in Prior Periods	<u>\$ (4,074)</u>	<u>\$ (192)</u>
Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods		
Increase in Accrued Annual and Compensatory Leave Liabilities	\$ -	\$ 3,808
Other		
Increase in Actuarial FECA Liabilities	3,685	1,514
Increase in Accrued FECA Liabilities	507	-
Increase in Contingent Liabilities	-	5
Increase in Other Unfunded Employment Related Liabilities	19	-
Increase in Other Post Employment Benefits Due and Payable	-	12
Decrease/(Increase) in Receivable from the Public	(94)	(63)
Total Other	<u>4,117</u>	<u>1,468</u>
Total Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods	<u>\$ 4,117</u>	<u>\$ 5,276</u>

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Required Supplementary Information
Unaudited

U.S. Department of Justice
 Bureau of Alcohol, Tobacco, Firearms and Explosives
 Required Supplementary Information
 Combining Statement of Budgetary Resources
 Unaudited

For the Fiscal Year Ended September 30, 2011

For the Fiscal Year Ended September 30, 2010

Dollars in Thousands	2011			2010		
Budgetary Resources	Appropriated	Trust Funds	Cumulative	Appropriated	Trust Funds	Cumulative
Unobligated Balance, Brought Forward, October 1	\$ 109,102	\$ 1,029	\$ 110,131	\$ 81,166	\$ 1,029	\$ 82,195
Recoveries of Prior Year Unpaid Obligations	21,159	-	21,159	38,221	-	38,221
Budget Authority						
Appropriations Received	1,114,772	-	1,114,772	1,158,272	-	1,158,272
Spending Authority from Offsetting Collections						
Earned						
Collected	95,965	-	95,965	81,707	-	81,707
Change in Receivables from Federal Sources	(488)	-	(488)	9,679	-	9,679
Change in Unfilled Customer Orders						
Without Advance from Federal Sources	(10,057)	-	(10,057)	1,509	-	1,509
Subtotal Budget Authority	1,200,192	-	1,200,192	1,251,167	-	1,251,167
Nonexpenditure Transfers, Net, Anticipated and Actual	(7,892)	-	(7,892)	(3,318)	-	(3,318)
Permanently not Available	(2,231)	-	(2,231)	-	-	-
Total Budgetary Resources	\$ 1,320,330	\$ 1,029	\$ 1,321,359	\$ 1,367,236	\$ 1,029	\$ 1,368,265

U.S. Department of Justice
Bureau of Alcohol, Tobacco, Firearms and Explosives
Required Supplementary Information
Combining Statement of Budgetary Resources (Continued)
Unaudited

For the Fiscal Year Ended September 30, 2011

For the Fiscal Year Ended September 30, 2010

Dollars in Thousands	2011			2010		
Status of Budgetary Resources						
Obligations Incurred						
Direct	\$ 1,174,282	\$ -	\$ 1,174,282	\$ 1,155,484	\$ -	\$ 1,155,484
Reimbursable	86,110	-	86,110	102,650	-	102,650
Total Obligations Incurred	1,260,392	-	1,260,392	1,258,134	-	1,258,134
Unobligated Balance - Available						
Apportioned	38,931	-	38,931	53,461	-	53,461
Total Unobligated Balance - Available	38,931	-	38,931	53,461	-	53,461
Unobligated Balance not Available	21,007	1,029	22,036	55,641	1,029	56,670
Total Status of Budgetary Resources	\$ 1,320,330	\$ 1,029	\$ 1,321,359	\$ 1,367,236	\$ 1,029	\$ 1,368,265
Change in Obligated Balance						
Obligated Balance, Net - Brought Forward, October 1						
Obligated Balance Transferred, Net (Note 20)						
Unpaid Obligations	\$ 226,042	\$ -	\$ 226,042	\$ 238,351	\$ -	\$ 238,351
Less: Uncollected Customer Payments from Federal Sources	70,397	-	70,397	59,209	-	59,209
Total Unpaid Obligated Balance, Net - Brought Forward, October 1	155,645	-	155,645	179,142	-	179,142
Obligations Incurred	1,259,363	1,029	1,260,392	1,258,113	21	1,258,134
Less: Gross Outlays	1,219,844	-	1,219,844	1,232,201	21	1,232,222
Less: Recoveries of Prior Year Unpaid Obligations, Actual	21,159	-	21,159	38,221	-	38,221
Change in Uncollected Customer Payments from Federal Sources	10,545	-	10,545	(11,188)	-	(11,188)
Obligated Balance, Net - End of Period						
Unpaid Obligations	245,431	-	245,431	226,042	-	226,042
Less: Uncollected Customer Payments from Federal Sources	59,852	-	59,852	70,397	-	70,397
Total Unpaid Obligated Balance, Net - End of Period	\$ 185,579	\$ -	\$ 185,579	\$ 155,645	\$ -	\$ 155,645
Net Outlays						
Gross Outlays	\$ 1,219,844	\$ -	\$ 1,219,844	\$ 1,232,201	\$ 21	\$ 1,232,222
Less: Offsetting Collections	95,965	-	95,965	81,707	-	81,707
Less: Distributed Offsetting Receipts	3,892	-	3,892	622	-	622
Total Net Outlays	\$ 1,119,987	\$ -	\$ 1,119,987	\$ 1,149,872	\$ 21	\$ 1,149,893

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Appendix

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**OFFICE OF THE INSPECTOR GENERAL
ANALYSIS AND SUMMARY OF ACTIONS
NECESSARY TO CLOSE THE REPORT**

The Office of the Inspector General (OIG) provided a draft of the *Independent Auditors' Report on Internal Control over Financial Reporting* to the Bureau of Alcohol, Tobacco, Firearms and Explosives (ATF). ATF's response is incorporated in the *Independent Auditors' Report on Internal Control over Financial Reporting* of this final report. The following provides the OIG analysis of the response and summary of actions necessary to close the report.

Recommendation Number:

1. **Resolved.** ATF concurred with our recommendation. This recommendation can be closed when subsequent annual financial statement audit testing verifies that ATF has established stronger oversight controls for financial reporting and validation of recorded transactions.
2. **Resolved.** ATF concurred with our recommendation. This recommendation can be closed when subsequent annual financial statement audit testing verifies that ATF has established standardized recording and reporting of upward and downward adjustments.
3. **Resolved.** ATF concurred with our recommendation. This recommendation can be closed when subsequent annual financial statement audit testing verifies that ATF has implemented quality controls over the statistical accounts payable accrual rate development, as well as the quarterly accrual calculations.