Bureau Of Alcohol, Tobacco, Firearms and Explosives Annual Financial Statements Fiscal Year 2010

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

Audit Report 11-13
January 2011

BUREAU OF ALCOHOL, TOBACCO, FIREARMS AND EXPLOSIVES ANNUAL FINANCIAL STATEMENTS FISCAL YEAR 2010

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, 2010, and September 30, 2009. Under the direction of the Office of the Inspector General (OIG), Cotton & Company LLP performed the audit in accordance with U.S. generally accepted auditing standards. The audit resulted in an unqualified opinion on the FY 2010 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. The FY 2009 financial statements audit was performed by KPMG LLP and also received an unqualified opinion (OIG Report No. 10-13).

Cotton & Company LLP also issued reports on internal control and on compliance and other matters. For FY 2010, the *Independent Auditors' Report on Internal Control over Financial Reporting* identified one significant deficiency. The significant deficiency related to inadequate funds management controls. Specifically, ATF needs to improve its internal controls to ensure that undelivered orders are valid, accounts payable transactions are calculated correctly, and related account balances are accurate and complete. In the FY 2010 *Independent Auditors' Report on Compliance and Other Matters*, the auditors identified no instances of non-compliance with applicable laws and regulations and the *Federal Financial Management Improvement Act of 1996*.

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 the Department's financial statements, conclusions about the effectiveness of internal control, conclusions on whether the Department'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 2, 2010, 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.

BUREAU OF ALCOHOL, TOBACCO, FIREARMS AND EXPLOSIVES ANNUAL FINANCIAL STATEMENTS FISCAL YEAR 2010

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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

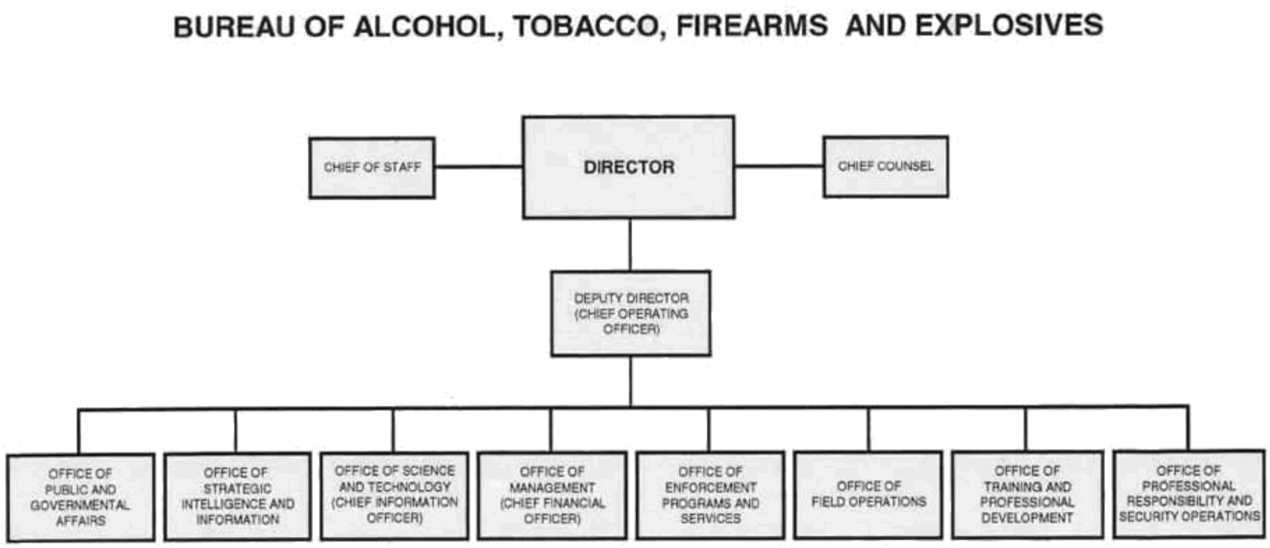
We value our people and those we serve.
We value professionalism, integrity, diversity, commitment, innovation, and excellence.
We value partnerships that promote the safety of our communities.

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, Executive Assistant 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 Training and Professional Development. These executives form the Bureau's Strategic Leadership Team and Investment Review Board. The Investment Review Board is comprised of the Assistant Directors and Chief Counsel and is chaired by the Deputy Director. The Board 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.

ORGANIZATION CHART



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

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, ATF's support of the rebuilding of Iraq, 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 organizations as well as the Department of Justice Assets Forfeiture Fund, to reimburse authorized ATF expenses.

ATF allocates funding among its 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, 2010 and 2009, were $561.7 and $500.7 million, respectively. The increase of approximately 12.2 percent is primarily due to an increase in the Cash and Monetary Assets of $41.3 million from project – generated proceeds from undercover operations, an increase in Accounts Receivable of $9.7 million, and Property, Plant and Equipment of $10.4 million. The Fund Balance with the Treasury represents approximately 46.5 percent of assets in FY 2010 and 51.4 percent in FY 2009.

Total liabilities as of September 30, 2010 and 2009, were $330.3 million and $283.9 million, respectively. The increase of $46.4 million or 16.3 percent is primarily due to increase in liabilities from undercover operations of $41.3 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 programs of the Bureau 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, 2010 and 2009 were $1,181.9 million and $1,106.1 million, respectively, an increase of approximately $75.9 million or 6.9 percent. The increase is primarily due to an increase in salaries and benefits expenses of $49.8 million or 6.6 percent and an increase in Commercial Contracts of $33.5 million or 17.5 percent.

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, 2010 and 2009 were $202.2 million and $183.6 million, respectively, the increase is approximately 10.1 percent. The Net Position as of September

30, 2010 and 2009 was $231.4 million and $216.8 million, respectively, with an increase of approximately 6.8 percent. The increases were due primarily to the transfer in of $6.8 million multiyear funds for the Spectrum Relocation Fund (SRF) and a SW Border Supplemental appropriation of $37.5 million, and $9.9 million transfer out of fiscal years 2005 and 2006 funds.

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, 2010 and 2009 were $1,258.1 million and $1,226.6 million, respectively. The increase of approximately 2.6 percent is primarily due to an increase in obligations related to funds from the American Recovery and Reinvestment Act of $2 million, the Southwest Border of $12 million, the National Center for Explosives Training and Research (NCETR) project of $5 million and various supplemental funds of $10 million.

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, 2010 and 2009 was $14.7 million and $14.5 million, respectively. The increase of approximately 1.6 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.

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

Source	FY 2010	FY 2009	Change%
Earned Revenue	$ 91,159	$ 55,556	64%
Budgetary Financing Sources			
Appropriations Received	1,158,272	1,068,215	8%
Appropriations Transferred-In/Out	(3,318)	16,647	-120%
Other Financing Sources			
Transfers-In/Out Without Reimbursement	2,407	2,173	11%
Imputed Financing from Costs Absorbed by Others	39,264	33,126	19%
Total	**$ 1,287,784**	**$ 1,175,717**	10%

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

Strategic Goal (SG)	FY 2010	FY 2009	Change%
SG 1: Prevent Terrorism and Promote the Nation's Security			
Net Cost	$ 7,185	$ 8,321	-14%
SG 2: Prevent Crime, Enforce Federal Laws, and Represent the Rights and Interests of the American People			
Gross Cost	1,265,934	1,153,318	
Less: Earned Revenue	91,159	55,556	
Net Cost	1,174,775	1,097,762	7%
Total Gross Cost	1,273,119	1,161,639	
Less: Total Earned Revenue	91,159	55,556	
Total Net Costs of Operations	**$ 1,181,960**	**$ 1,106,083**	7%

2010 Financial Highlights

ATF activity primarily supports 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, 1% 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 2010 and FY 2009 were $7.2 million and $8.3 million, respectively, a decrease of approximately 13.7 percent, which comprises only 1% 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% 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 2010 and FY 2009 were $1,174.8 million and $1,097.8 million, respectively, an increase of approximately 7 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 2010 REPORT ON SELECTED RESULTS

STRATEGIC GOAL 2: Prevent Crime, Enforce Federal Laws and Represent the Rights and Interests of the American People.

PROGRAM: Reduce Violent Firearms Crime
***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 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 "Enforcing Federal Laws and Representing the Rights and Interests of the American People:"

- In FY 2010, ATF collected approximately $13.6 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 2010, ATF recommended 11,452 criminal cases against 17,142 defendants for prosecution – 1,467 of those cases involve 4,620 defendants engaged in gang related criminal conduct. Of the defendants recommended for prosecution, nearly 62% are previously convicted felons and 84% have prior arrest records.

- In addition, in FY 2010, ATF arrested 9,226 defendants, which led to 9,389 indictments and 7,246 convictions. As a result, 6,192 defendants were sentenced to prison in FY 2010 and received an average sentence of 201 months, excluding the 61 defendants who received life sentences and seven who received death sentences.

- In FY 2010 we initiated the following criminal investigations:

    - 21,910 firearms cases, including illegal possession and firearms trafficking;

  - 3,301 arson and explosives cases, including bombing and attempted bombing cases; and,
  - 141 alcohol and tobacco diversion cases.

- Since the inception of Project Gunrunner in FY 2006, ATF has seized 9,700 firearms and nearly 1.2 million rounds of ammunition destined for the Southwest Border. ATF has arrested 1,735 suspects and obtained evidence that indicates 18,714 firearms were trafficked to Mexico by organizations investigated by ATF.

- In FY 2010, ATF has seized 2,970 firearms and 407,000 rounds of ammunition destined for the Southwest Border. ATF has arrested 314 suspects and obtained evidence that 4,221 firearms were trafficked to Mexico by organizations investigated by ATF.

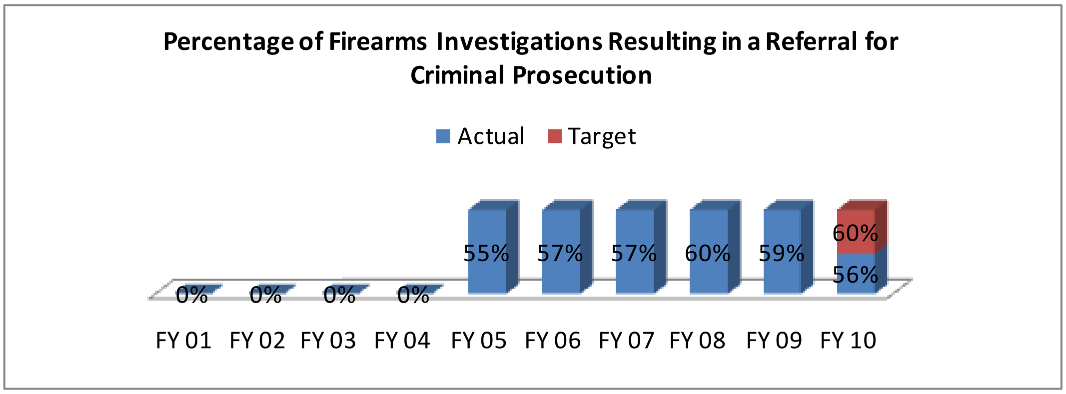
- In FY 2010, ATF referred 206 cases for prosecution related to the Southwest Border, under Project Gunrunner.

- In FY 2010, there were 7,311 retail dealers and pawnbrokers who held Federal Firearms Licenses (FFLs) in Texas, Arizona, New Mexico, and Southern California. In 2010, ATF inspected 58 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.

FY 2001 Actual Performance – N/A
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 Target – 60%
FY 2010 Actual Performance – 56%



Data Definitions: This measure reflects the percentage of investigations within ATF's firearms program area 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.

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 are 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 are based on the date investigations are closed, and are therefore likely to include investigations that have spanned previous time periods.

Discussion of FY 2010 Results: ATF's target goal of referring for criminal prosecution 60% percent of its investigations within the firearms programs area fell short by 4%. However, during this reporting

[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).

period ATF increased its commitment to Southwest Border firearms interdiction initiatives, detailing 80 special agents, investigators, and intelligence personnel to the Phoenix/Tucson Gunrunner Impact Teams (GRIT) from May to August 2010. ATF is the Federal law enforcement agency with unique expertise and statutory authority to enforce Federal firearms laws. Nearly meeting the 60% goal while simultaneously expanding its commitment to investigating and disrupting Southwest border firearms trafficking and related violent crime demonstrates that ATF has a significant impact on reducing firearms violence through investigations and the referral of criminals for prosecution.

ATF has been at the forefront of efforts across the country to reduce violent crime involving firearms. ATF is the lead Federal agency in these efforts, actively initiating investigations against violent offenders and firearms traffickers and providing key services to its law enforcement partners. The following case examples highlight ATF's FY 2010 efforts:

- **Phoenix Field Division**: A subset of ATF's broader firearms enforcement program, Project Gunrunner is ATF's comprehensive firearms trafficking interdiction strategy to disrupt the illegal flow of firearms into Mexico, and to impact the firearms violence along the Southwest border associated with Mexican drug trafficking organizations and cartels. In May 2010, ATF launched a Gun Runner Impact Team (GRIT), an initiative under Project Gunrunner, involving a 100-day deployment of supplemental ATF resources to the Phoenix Field Division to disrupt and dismantle the southbound supply of firearms to Mexican drug trafficking organizations.

  The GRIT initiative brought more than 80 experienced ATF personnel from around the country to Arizona and New Mexico. GRIT special agents initiated 174 firearms trafficking-related criminal investigations and seized approximately 1,300 illegally-trafficked firearms and 71,000 rounds of ammunition, along with drugs and currency. ATF's industry operations investigators conducted more than 800 federal firearms licensee compliance inspections.

  The Phoenix GRIT was concluded in September 2010. As of September 17, 2010, 96 defendants have been arrested, charged, convicted or sentenced since June 2010 on gun-related charges. The majority of defendants include violent felons, drug traffickers who use weapons, and those trafficking firearms to Mexico. Cases involved more than 370 guns, many of them AK-47 style rifles and other "weapons of choice" of drug cartels, and hundreds of thousands of rounds of ammunition smuggled into or destined for Mexico.

Recent examples of firearms prosecutions in the District of Arizona:

- o **U.S. v. Arizmendiz et al. :** In July and August, two leaders of a firearms trafficking conspiracy that supplied at least 112 firearms, mostly AK-47 style, to the Sinaloa Cartel, were sentenced. Alejandroi Medrano, 23, and Hernan Ramos, 22, both of Mesa, Arizona, were sentenced to 46 and 50 months in prison, respectively, for leading a conspiracy involving 10 defendants who straw purchased firearms from gun dealers in Phoenix and Tucson, Arizona, in order to supply them to a member of the Sinaloa Cartel.

- o **U.S. v. Gaeda et al. :** On June 3, following an ATF investigation involving more than 250,000 rounds of ammunition, ATF agents arrested Emmanuel Casquez, Elias

Vasquez, and Charice Gaeda for unlawfully exporting ammunition to Mexico. Agents had learned the three were purchasing vast quantities of ammunition and searched a vehicle headed for the border port at Nogales and recovered 9,500 rounds of ammunition; a search of a residence ensued and an additional 27,000 rounds of ammunition were recovered.

- **U.S. v. Ibarra et al. :** In July, a 20-count indictment announced the charging of 10 straw purchasers, recruited by then 17-year-old Francisco Ibarra, to buy at least 25 firearms. ATF believes the firearms were illegally-trafficked into Mexico.

As a result of the 2010 emergency supplemental appropriation for border security, ATF received $37.5 million to expand Project Gunrunner. With this funding, ATF will establish seven new firearms trafficking groups along traditional and newly-discovered firearms trafficking routes and hubs in Atlanta, Georgia; Dallas and Brownsville, Texas; Las Vegas, Nevada; Miami, Florida; Oklahoma City, Oklahoma; and Sierra Vista, Arizona.

- **Tampa Field Division**: Orlando, Florida - In September 2010, ATF, U.S. Immigration and Customs Enforcement (ICE) and the U.S. Attorney, Northern District of Florida, announced the initial results of Operation Castaway, an intensive and wide-ranging Organized Crime and Drug Enforcement Task Force (OCDETF) firearms trafficking investigation conducted by ATF, ICE, the Orange County Sheriff's Office, the Osceola County Sheriff's Office, the Brevard County Sheriff's Office, and the Miami-Dade Police Department. This was an ATF led investigation initiated from analysis conducted by the ATF Field Intelligence Group, based on information derived from ATF Industry Operations referrals, and National Tracing Center trace and multiple sales data. ATF describes Operation Castaway as the most significant firearms trafficking investigation in Central Florida history.

  According to court documents, a group of defendants connected to Hugh Crumpler, III, were involved in a major international gun trafficking operation. Crumpler has trafficked, for several years, more than 1,000 firearms to various groups and defendants who exported these weapons all over Central and South America and to Puerto Rico. The defendants trafficked in Glock semi-automatic handguns, Fabrique Nationale Herstal 5.7x28 mm semi-automatic handguns, and AR-15 styled short-barreled rifles, among other firearms.

  Firearms like those involved in this investigation are often smuggled through Honduras and other Central and South American countries before being used in violent crimes in Mexico and other countries in the region. A number of the firearms trafficked by the defendants in Operation Castaway have been linked to violent crimes around the world. Several firearms trafficked by Crumpler and Ramon Lopez, Jr. were used in crimes associated with the Torres Sabana Drug Trafficking Organization, a notorious and violent drug trafficking organization in Puerto Rico. Another firearm, a Glock pistol, was recovered in Medellin, Colombia, after being used to commit a homicide. Yet another firearm was found in the possession of a hitman for Oficina de Envigado, an organization described by the Department of Treasury as "a violent Medellin-based organized crime group that engages in large-scale drug trafficking and money laundering activities in Colombia."

Recently, several of the Operation Castaway defendants were sentenced. Hugh Crumpler, III (age 63, of Palm Bay) was sentenced to 30 months in federal prison for dealing firearms without a license and unlawfully possessing short barreled rifles; Ramon Lopez, Jr. (age 29, of Kissimmee) was sentenced to 74 months in federal prison for dealing firearms without a license and unlawfully possessing short barreled rifles; Carlos Humberto Guillen-Rivera (age 29, of Honduras) was sentenced to 84 months in federal prison for conspiring to possess and illegally possessing short barreled rifles; Cesar Augusto Guillen-Rivera (age 31, of Honduras) was sentenced to 65 months in federal prison for conspiring to possess and illegally possessing short barreled rifles; Erlin Javier Guillen-Rivera (age 25, of Honduras) was sentenced to 63 months in federal prison for conspiring to possess and illegally possessing short barreled rifles; and Hector Saenz (age 38, of Honduras) was sentenced to 46 months for conspiracy.

Operation Castaway defendant Jesus Puentes pleaded guilty on August 31, 2010 to conspiring to possess and illegally possessing short barreled rifles and will be sentenced on November 18, 2010. Defendant Jorge Acosta has pleaded guilty to conspiring to possess and illegally possessing short barreled rifles. Acosta will be sentenced at a future date. Two additional defendants, Antonia Ruiz-Varela and Manuel Dejesus Carrasco-Ruiz, are still at large and have yet to be arrested by authorities. Operation Castaway remains an ongoing investigation.

- **Atlanta Field Division**: Brunswick, Georgia – Recently, 34 federal indictments unsealed in federal court, have charged 57 defendants with federal firearms, drug trafficking or other federal offenses. Thirty-two additional defendants were charged by Glynn County authorities on related state firearms and drug charges. The federal and state charges follow a 9-month undercover investigation dubbed “Operation Thunderbolt.”

  The U.S. Attorney’s Office, ATF, the Glynn County Police Department and the Glynn County-Brunswick Narcotics Enforcement Team (GBNET) initiated Operation Thunderbolt in the fall of 2009. Additional investigative support was provided by U.S. Immigration and Customs Enforcement and the U.S. Secret Service. Undercover ATF agents posed as members of the Brunswick community interested in purchasing guns and drugs from the criminal element. During the operation, undercover agents purchased 245 firearms, including handguns, rifles, assault rifles and sawed-off shotguns, and approximately $200,000 worth of illegal drugs, including more than 3 pounds of cocaine, over 1,500 ecstasy pills, over 800 oxycodone pills, and a quantity of methadone. Many of the individuals who sold firearms and drugs to the undercover agents are allegedly convicted felons. In addition, a number of the guns purchased by undercover agents were allegedly stolen.

  Following numerous arrests, initial appearances for several of the federally indicted defendants were held in U.S. District Court, Brunswick, Georgia, on August 12, 2010. In summary, a total of 55 federal defendants were indicted, with two additional subjects yet to be identified also charged federally; and 29 adult defendants and three juveniles were arrested or being sought on state charges.

PROGRAM: **Arson and Explosives**

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. They also provide assistance and training in all aspects of explosives handling, usage, and disposal; threat vulnerability assessments; infrastructure protection; and other explosives-related matters.

- **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.

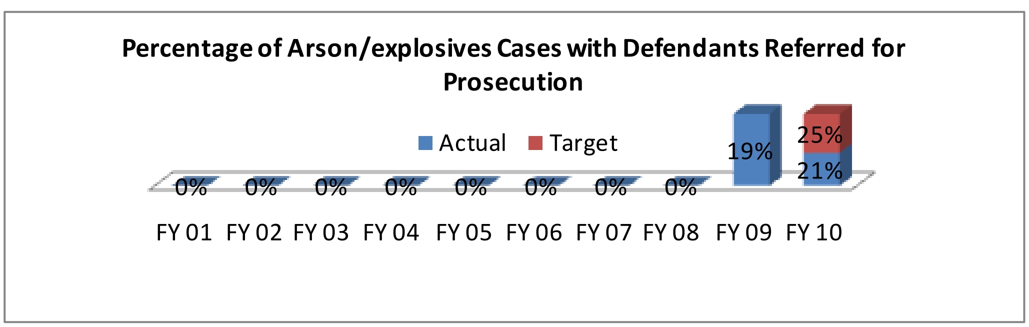
  The special agent CFIs serve as ATF's primary resource in fire-related matters. They conduct fire scene examinations and render origin and cause determinations on behalf of ATF; provide expert courtroom testimony; provide technical support and analysis to assist other special agents and prosecutors with 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 was designed to bring together all of ATF's expertise and experience to work alongside State and local officers in reconstructing the scene, identifying the seat of the blast or origin of the fire, conducting interviews, sifting through debris to obtain evidence related to the explosion and/or fire, assisting with the ensuing investigation, and providing expert court testimony.

  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.

FY 2001 Actual Performance – N/A
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 Target – 25%
FY 2010 Actual Performance – 21%



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.

Discussion of FY 2010 Results: The following case highlights ATF's FY 2010 accomplishments:

- In December 2008, a bomb was planted outside the Woodburn West Coast Bank in Woodburn, Oregon as part of a bank robbery scheme. Believing it to be a hoax, an Oregon State Police (OSP) Senior Trooper, the Woodburn Police Department (WPD) Chief, and a WPD Captain were dismantling the bomb inside the bank when it exploded. The explosion killed the OSP Senior Trooper and the WPD Captain and severely injured the WPD Chief, resulting in the amputation of his right leg.

  The ATF Seattle Field Division's local response team processed the bomb scene, led by an ATF CFI and two ATF EEOs. The EEOs spent hundreds of hours poring through recovered bomb debris and built a highly accurate facsimile of the bomb. A tiny screw proved to be the unique part of a Futaba servo motor housing, which proved that the bomb was remotely controlled. With this key evidence, the Marion County, Oregon Prosecution Team charged the suspects with aggravated murder, a capital offense.

  In September 2010, one of the ATF EEOs provided expert testimony during the trial, describing the bomb and its lethal effects. The prosecution's case was that both suspects held anti-Government views and fantasized about robbing banks for years prior to the bombing. In December 2008, with their biodiesel business failing and their concerns over gun rights and the recent election of President Obama, the suspects decided to act on these fantasies. At the outset of the trial, each defendant accused the other of the crime. The trial is expected to run through December 2010.

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.

ATF's Deputy 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).

FMFIA Assurance Statement

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, *l*, as required by Section 2 of the FMFIA. Based on the results of this assessment, ATF provides reasonable assurance, as of June 30, 2010, that its internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations was 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 FY2010.

This statement of assurance is based on the Bureau's core financial system (FReD/UFMS) 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 *t* FMFIA and are "compliant" with the FFMIA. 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 FY2010, ATF migrated to Momentum version 6.1.5/ UFMS Phase I. As an early adopter of more than half of the UFMS standards, ATF reduced the overall risk of the implementation effort, increased efficiency, obtained enhancements to our current financial system, and gained key audit and operational benefits.

- ATF's successful use of the Monthly Accountability Process (MAP) serves as an internal management tool for preparing accounting reconciliations and reporting financial information. To validate that procedures and policies are being followed, MAPs monitor and manage budgeting and accounting activity and ensure that data in FReD/UFMS is current and accurate. Recently, ATF incorporated an additional internal management control that ensures access recertification. Monthly comparisons between E-Request and FReD/UFMS ensure there are no discrepancies between requesting and receiving system access.

- The Bureau continued the CFO Steering Committee meetings composed of ATF's Deputy Assistant Directors and chaired by the CFO to monitor progress, resolve problems, provide coordination, and develop consensus recommendations regarding audited financial statement issues, corrective action status, and the Bureau's internal control environment.

ATF controls that fulfill 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.

ATF strengthened controls and safeguards over sensitive property and will close this previously identified material weakness, which was downgraded to a reportable condition by December 2010. In addition, ATF requested a waiver from DOJ's CIO for all non-encrypted computers that have justifiable reasons for not complying with the encryption process. During FY 2010, ATF continued to refine its accounts payable process. ATF made significant progress in correcting the accounts payable deficiency reported previously by the CFO auditors and in internal testing. The results of our internal testing revealed significant progress and showed ATF has strong policies and procedures in place; however our internal testing and external audit reports noted internal controls over the obligation process could be strengthened by improved oversight and approval controls and improving controls for the Accounts Payable accrual process. ATF is implementing corrective actions to strengthen controls in these areas and providing updated financial management training. Additionally, some of these issues will be resolved by implementation of the Unified Financial Management System (UFMS).

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 2010, 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.

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 FY2010 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;
- Procurement; and
- Seized and Forfeited Property.

In addition, as also required by DOJ's FY2010 Guidance for Implementation of OMB Circular A-123, ATF has tested key controls over sensitive payments related to:

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

The results of testing identified no material weaknesses or reportable conditions in ATF's internal control over financial reporting as of September 30, 2010. However, the testing did identify some deficiencies, none of which was significant enough to be considered a material weakness or reportable condition.

In addition, in accordance with OMB guidance, is based on the Bureau's financial system (FReD/UFMS) meeting the following standards:

- Financial information standards: compliance with the Standard General Ledger (SGL) and quality data, which are accurate, complete, reliable, timely, comparable, consistent, useful financial information for the current and past fiscal years.

- Financial system functional standards: compliance with the Joint Financial Management Improvement Program (JFMIP) Federal Financial Systems Requirements, reliance on effective interfaces, documentation and audit trails, and support for mission performance.

IMPROPER PAYMENTS INFORMATION ACT

ATF assessed the effectiveness of internal control over financial reporting in compliance with OMB

Circular A-123. ATF is actively identifying and implementing additional procedures to prevent and detect improper payments. Furthermore, all financial statement audit findings/comments and results of other payment reviews are reviewed for indications of breaches of disbursement controls. None of these audit findings/comments or reviews have uncovered any problems with improper payments or the internal controls that surround disbursements.

This risk-assessment revealed no risk-susceptible programs in which improper payments exceed both 2.5% of program payments and $10 million, and demonstrated that, overall, ATF has strong internal controls over disbursement processes, the amount of improper payments are immaterial, and the risk of improper payments is low.

AMERICAN RECOVERY AND REINVESTMENT ACT (ARRA)

ATF used the $10 million in ARRA funding to establish three new field offices and one satellite office along the Southwest Border and two offices in U.S. Consulates in Mexico. Thirty-seven employees were recruited, hired and trained to fill these positions and/or to backfill vacancies created as a result of the transfer of more experienced employees to these new office locations. These new field offices enhance ATF's law enforcement and regulatory mission of reducing firearms and explosives-related violent crime associated with Mexican drug trafficking organizations by preventing the acquisition and trafficking of firearms (and explosives) by and for Mexican drug trafficking organizations.

The additional ARRA funding activity will allow this program to enhance public safety. Violence perpetrated by Mexican drug trafficking organizations has increased significantly, made possible, in part, by the unlawful acquisition of firearms from the United States. Concerns also exist that drug-related violence in Mexico will continue to spill into the United States. The new domestic field offices and offices in U.S. Consulates in Mexico will enhance ATF's law enforcement and regulatory roles in denying firearms to gun traffickers, prohibited persons and those who seek to use them for criminal purposes.

The expenditure of ARRA funds complied with a Congressionally approved spending plan. The ARRA funds support and continue established performance measures for firearms investigations and inspections. ATF created a separate fund in the financial system to identify and track spending of the allotted funds. The ATF Financial Management Division reviews spending activity in the ARRA fund weekly, and reports to ATF's CFO. In addition, ATF reporting confirms the reasonableness of activities from week to week. This reporting captures "total obligations" and "total gross outlays" that are recorded on the "Financial and Activity Report v1.4" that are sent to DOJ weekly for review. ATF did not identify any reportable conditions associated with managing Recovery Act funds across DOJ mandated material business processes for ATF.

The expected strategic outcome is multifold. By curtailing the availability of firearms to the Mexican drug cartels, ATF will diminish their ability to export drugs to the U.S. In addition, by removing the guns from the cartels' lethal resources, ATF will directly affect their ability to operate and suppress the firearms-related violence that occurs on both sides of the Southwest Border. This will be accomplished through effective law enforcement collaboration, focused training, and interdiction of illicit trafficking and illegal use of firearms and ammunition.

For more information on ARRA please reference the website at www.atf.gov/gov/recovery/index.htm.

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. The Project Safe Neighborhoods (PSN) initiative is tailored toward the needs of each of the 94 individual judicial districts and communities across the country, combining enforcement efforts, the use of state-of-the-art information and technology, and community outreach and prevention. 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.

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.

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.

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Reports of Independent Auditors

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INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS

Inspector General
United States Department of Justice

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

We have audited the accompanying Consolidated Balance Sheet of the Bureau of Alcohol, Tobacco, Firearms and Explosives (ATF), a component of the United States Department of Justice (DOJ), as of September 30, 2010, and the related Consolidated Statement of Net Cost, Consolidated Statement of Changes in Net Position, and Combined Statement of Budgetary Resources for the year then ended. These financial statements are the responsibility of ATF's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of ATF as of September 30, 2009, were audited by other auditors whose report dated November 2, 2009, expressed an unqualified opinion on those statements.

We conducted our audit 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 by OMB Memorandum M-09-33. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 audit provides 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 ATF as of September 30, 2010; and its consolidated net costs, consolidated changes in net position, and combined budgetary resources for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The information in the *Management's Discussion and Analysis* and *Required Supplementary Information* sections is not a required part of the basic consolidated financial statements, but is supplementary information required by U.S. generally accepted accounting principles, or by OMB Circular No. A-136, *Financial Reporting Requirements*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our reports dated November 2, 2010, 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 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 audit.

COTTON & COMPANY LLP

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Partner

November 2, 2010
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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Inspector General
United States Department of Justice

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

We have audited the Consolidated Balance Sheet of the Bureau of Alcohol, Tobacco, Firearms and Explosives (ATF), a component of the United States Department of Justice (DOJ), as of September 30, 2010, and the related Consolidated Statement of Net Cost, Consolidated Statement of Changes in Net Position, and Combined Statement of Budgetary Resources for the year then ended, and have issued our report thereon dated November 2, 2010. We conducted our audit 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 by OMB Memorandum M-09-33.

In planning and performing our 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 a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

FUNDS MANAGEMENT CONTROLS NEED IMPROVEMENT (SIGNIFICANT DEFICIENCY)

ATF's internal controls need improvement to ensure that undelivered orders are valid, accounts payable transactions are calculated correctly, and related account balances are accurate and complete. ATF's quarterly process for accruing estimated expenses is labor-intensive, manual, and inherently high risk by nature. ATF personnel are not adequately reviewing and approving transactions before posting them to the general ledger, validating posting results to ensure data accuracy, or monitoring undelivered orders to determine their validity.

During interim and year-end testing, we selected and reviewed three sample populations of undelivered order and accounts payable transactions. We identified the following accounting errors and instances of non-compliance with accounting standards, OMB Circular No. A-11, *Preparation, Submission and Execution of the Budget*, the United States Standard General Ledger (USSGL) and other accounting guidance.

UNDELIVERED ORDERS/ACCOUNTS PAYABLE
FISCAL YEAR 2010 TEST RESULTS

SAMPLE POPULATION	NUMBER OF ERRORS/ TRANSACTIONS TESTED	KNOWN ERRORS	LIKELY MISSTATEMENT[1]
March 31, 2010 Testing	15/150	**Undelivered Orders** $1.5 million net overstatement **Accounts Payable** $3 thousand net overstatement	**Undelivered Orders** $2 million net overstatement **Accounts Payable** $550 thousand net overstatement
June 30, 2010 Testing	8/145	**Undelivered Orders** $3.7 million net overstatement **Accounts Payable** $423 thousand net understatement	**Undelivered Orders** $4.3 million net overstatement **Accounts Payable** $7 thousand net overstatement
September 30, 2010 Testing	3/71	**Undelivered Orders** $118 thousand understatement **Accounts Payable** $2.6 million overstatement	**Undelivered Orders** $404 thousand understatement **Accounts Payable** $2.6 million overstatement

[1] Each transaction tested has a unique weight in relation to the total population; therefore, the likely misstatement will not be in linear proportion to the known errors. In addition, a known net understatement may project to a likely net overstatement.

The accounting errors and instances of non-compliance are discussed below.

MARCH 31, 2010

During March 2010 testing of undelivered orders and accounts payable, we noted 15 exceptions.

- Six undelivered order transactions were understated by $2.5 million because accruals were calculated improperly, duplicative, or not recorded.

- Three travel and permanent change-of-station undelivered order transactions were overstated by $23 thousand because two deobligations were entered incorrectly, which resulted in an increase to the undelivered order balance rather than a decrease, and one obligation transaction was posted in error.

- Two undelivered order transactions were overstated by $4 million because they were for capital leases for which the equipment had been received and was being amortized. The portion of the balance related to the capital lease liability should have been classified as a budgetary accounts payable.

- One accounts payable transaction totaling $58 thousand was posted in duplicate because a receiver was recorded for an IPAC transaction that had already been accrued as part of a journal voucher entry to record IPAC transactions in suspense.

- Three accounts payable transactions were understated by a net $55 thousand because ATF did not correctly calculate accounts payable accruals. ATF failed to include an administrative fee in its accrual calculation, used 4 rather than 3 months as the performance period when calculating an accrual, and made a transposition error when recording an accrual.

JUNE 30, 2010

During June 2010 testing of undelivered orders and accounts payable, we noted eight exceptions.

- Undelivered order transactions were overstated by $3.2 million because they were for capital leases for which the equipment had been received and was being amortized. The portion of the balance related to the capital lease liability should have been classified as a budgetary accounts payable.

- Three undelivered order and accounts payable transactions were incorrect because vendor accruals were calculated incorrectly. ATF failed to include an administrative fee in its calculation, increased the vendor's estimate of unbilled costs in error, and incorrectly adjusted an accrual at month-end. Undelivered orders were overstated by a net $486 thousand and accounts payable were understated by the same amount.

- Four accounts payable transactions totaling $63 thousand were overstated because ATF did not correctly calculate accounts payable accruals. ATF accrued for the entire year rather than only through June 30; accrued 4 rather than 3 months of services; failed to accrue for all goods received as of June 30; and failed to decrease a receiver to agree to the vendor estimate.

SEPTEMBER 30, 2010

During September 2010 testing of undelivered orders and accounts payable, we noted three exceptions.

- One undelivered order transactions was understated by $118 thousand because ATF recorded an accrual for September services twice; once as part of the high-dollar vendor accrual and again as part of the AFF reimbursable obligation accrual.

- Accounts payable transactions for capital leases were overstated by $2.5 million because ATF posted receivers in its accounting system, creating accounts payable in general ledger account 2110, which duplicated the capital lease liability already recorded in general ledger account 2940.

- One accounts payable transaction was overstated by $55 thousand because ATF made an error when calculating its accrual.

Statement of Federal Financial Accounting Standards No. 5, *Accounting for Liabilities of the Federal Government*, paragraphs 22 and 23, state that a liability and the corresponding expense should be recognized during the period when an exchange transaction takes place.

Title 31 U.S.C. §1501(a) states:

> *An amount shall be recorded as an obligation of the United States Government only when supported by documentary evidence of: (1) a binding agreement . . .; (2) a loan agreement . . .; (3) an order required by law to be placed with an agency; (4) an order issued under a law authorizing purchases without advertising . . .; (5) a grant or subsidy payable . . .; (6) a liability that may result from pending litigation; (7) employment or services of persons or expenses of travel under law; (8) services provided by public utilities; or (9) other legal liability of the Government against an available appropriation or fund.*

OMB Circular A-11, *Preparation, Submission, and Execution of the Budget*, states that an obligation is a legally binding agreement that will result in outlays that will occur either immediately or in the future. An obligation is incurred when an order is placed or a contract is signed that requires the Government to make payments to the public or to another Government agency.

The USSGL defines an undelivered order as “the amount of goods and/or services ordered which have not been actually or constructively received.”

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

RECOMMENDATION

We recommend that ATF:

1. Establish stronger oversight controls for processing accounts payable, obligation, and deobligation transactions, including:
- Recalculation and validation by the preparer;
- Review and approval of source documentation, calculations, and posting by someone other than the preparer; and
- A more thorough managerial review. *(New)*

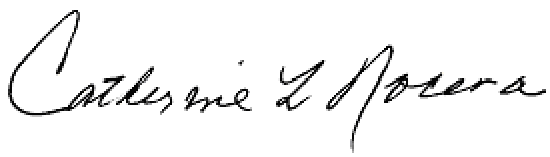
Management Response:

ATF concurs with the above recommendation and is establishing stronger oversight to validate and review accounts payable, obligation, and deobligation transactions. Specifically, ATF is enhancing financial management policies and procedures to address the above finding and reiterate all transaction review and documentation requirements. ATF will continue efforts to eliminate internal control concerns over financial reporting.

* * * *

This report is intended solely for the information and use of ATF's management, DOJ Office of the Inspector General, OMB, the 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 2, 2010
Alexandria, Virginia

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND OTHER MATTERS

Inspector General
United States Department of Justice

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

We have audited the Consolidated Balance Sheet of the Bureau of Alcohol, Tobacco, Firearms and Explosives (ATF), a component of the United States Department of Justice (DOJ), as of September 30, 2010, and the related Consolidated Statement of Net Cost, Consolidated Statement of Changes in Net Position, and Combined Statement of Budgetary Resources for the year then ended, and have issued our report thereon dated November 2, 2010. We conducted our audit 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 by OMB Memorandum M-09-33.

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 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 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, the 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 2, 2010
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, 2010 and 2009

Dollars in Thousands		2010		2009
ASSETS (Note 2)				
Intragovernmental				
Fund Balance with U.S. Treasury (Note 3)	$	261,136	$	257,432
Accounts Receivable (Note 5)		28,291		18,612
Other Assets (Note 8)		14,349		20,694
Total Intragovernmental		303,776		296,738
Cash and Monetary Assets (Note 4)		49,009		6,341
Accounts Receivable, Net (Note 5)		162		99
General Property, Plant and Equipment, Net (Note 7)		207,118		196,681
Advances and Prepayments		1,669		853
Total Assets	**$**	**561,734**	**$**	**500,712**
LIABILITIES (Note 9)				
Intragovernmental				
Accounts Payable	$	14,803	$	18,366
Accrued Federal Employees' Compensation Act Liabilities		19,567		19,751
Other Liabilities (Note 12)		9,393		8,332
Total Intragovernmental		43,763		46,449
Accounts Payable		45,744		46,047
Actuarial Federal Employees' Compensation Act Liabilities		107,012		105,498
Accrued Payroll and Benefits		31,560		28,055
Accrued Annual and Compensatory Leave Liabilities		52,408		48,600
Seized Cash and Monetary Instruments (Notes 4 and 11)		3,010		2,436
Contingent Liabilities (Note 13)		3,505		3,500
Capital Lease Liabilities (Note 10)		1,875		3,241
Other Liabilities (Note 12)		41,416		110
Total Liabilities	**$**	**330,293**	**$**	**283,936**
NET POSITION				
Unexpended Appropriations - All Other Funds	$	202,183	$	183,607
Cumulative Results of Operations - All Other Funds		29,258		33,169
Total Net Position	**$**	**231,441**	**$**	**216,776**
Total Liabilities and Net Position	**$**	**561,734**	**$**	**500,712**

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, 2010 and 2009

Dollars in Thousands

		Gross Costs			Less: Earned Revenues			Net Cost of Operations (Note 14)
	FY	**Intra-governmental**	**With the Public**	**Total**	**Intra-governmental**	**With the Public**	**Total**	
Goal 1	**2010**	$ -	$ 7,185	$ 7,185	$ -	$ -	$ -	$ 7,185
	2009	$ -	$ 8,321	$ 8,321	$ -	$ -	$ -	$ 8,321
Goal 2	**2010**	365,344	900,590	1,265,934	90,417	742	91,159	1,174,775
	2009	339,493	813,825	1,153,318	55,400	156	55,556	1,097,762
Total	**2010**	**$ 365,344**	**$ 907,775**	**$ 1,273,119**	**$ 90,417**	**$ 742**	**$ 91,159**	**$ 1,181,960**
	2009	**$ 339,493**	**$ 822,146**	**$ 1,161,639**	**$ 55,400**	**$ 156**	**$ 55,556**	**$ 1,106,083**

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, 2010 and 2009

Dollars in Thousands	2010	2009
Unexpended Appropriations		
Beginning Balances	**$ 183,607**	**$ 167,668**
Budgetary Financing Sources		
Appropriations Received	1,158,272	1,068,215
Appropriations Transferred-In/Out	(3,318)	16,647
Appropriations Used	(1,136,378)	(1,068,923)
Total Budgetary Financing Sources	**18,576**	**15,939**
Unexpended Appropriations	**$ 202,183**	**$ 183,607**
Cumulative Results of Operations		
Beginning Balances	**$ 33,169**	**$ 35,030**
Budgetary Financing Sources		
Appropriations Used	1,136,378	1,068,923
Other Financing Sources		
Transfers-In/Out Without Reimbursement	2,407	2,173
Imputed Financing from Costs Absorbed by Others (Note 15)	39,264	33,126
Total Financing Sources	**1,178,049**	**1,104,222**
Net Cost of Operations	**(1,181,960)**	**(1,106,083)**
Net Change	(3,911)	(1,861)
Cumulative Results of Operations	**$ 29,258**	**$ 33,169**
Net Position	**$ 231,441**	**$ 216,776**

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, 2010 and 2009

Dollars in Thousands	2010	2009
Budgetary Resources		
Unobligated Balance, Brought Forward, October 1	$ 82,195	$ 53,971
Recoveries of Prior Year Unpaid Obligations	38,221	80,237
Budget Authority		
Appropriations Received	1,158,272	1,068,215
Spending Authority from Offsetting Collections		
Earned		
Collected	81,707	61,800
Change in Receivables from Federal Sources	9,679	(5,500)
Change in Unfilled Customer Orders		
Without Advance from Federal Sources	1,509	33,421
Subtotal Budget Authority	1,251,167	1,157,936
Nonexpenditure Transfers, Net, Actual	(3,318)	16,647
Total Budgetary Resources (Note 16)	**$ 1,368,265**	**$ 1,308,791**

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, 2010 and 2009

Dollars in Thousands	2010	2009
Status of Budgetary Resources		
Obligations Incurred		
Direct	$ 1,155,484	$ 1,132,564
Reimbursable	102,650	94,032
Total Obligations Incurred (Note 16)	1,258,134	1,226,596
Unobligated Balance - Available		
Apportioned	53,461	44,648
Total Unobligated Balance - Available	53,461	44,648
Unobligated Balance not Available	56,670	37,547
Total Status of Budgetary Resources	**$ 1,368,265**	**$ 1,308,791**
Change in Obligated Balance		
Obligated Balance, Net - Brought Forward, October 1		
Unpaid Obligations	$ 238,351	$ 215,902
Less: Uncollected Customer Payments from Federal Sources	59,209	31,288
Total Unpaid Obligated Balance, Net - Brought Forward, October 1	179,142	184,614
Obligations Incurred, Net	1,258,134	1,226,596
Less: Gross Outlays	1,232,222	1,123,910
Less: Recoveries of Prior Year Unpaid Obligations, Actual	38,221	80,237
Change in Uncollected Customer Payments from Federal Sources	(11,188)	(27,921)
Obligated Balance, Net - End of Period		
Unpaid Obligations	226,042	238,351
Less: Uncollected Customer Payments from Federal Sources	70,397	59,209
Total Unpaid Obligated Balance, Net - End of Period	**$ 155,645**	**$ 179,142**
Net Outlays		
Gross Outlays	$ 1,232,222	$ 1,123,910
Less: Offsetting Collections	81,707	61,800
Less: Distributed Offsetting Receipts (Note 16)	622	247
Total Net Outlays (Note 16)	**$ 1,149,893**	**$ 1,061,863**

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, 2009 and 2008

Dollars in Thousands		**2010**		**2009**
Revenue Activity				
Sources of Cash Collections				
Fees and Licenses	$	13,985	$	14,224
Fines, Penalties and Restitution Payments - Civil		22		18
Fines, Penalties and Restitution Payments - Criminal		44		38
Miscellaneous		623		249
Total Cash Collections		14,674		14,529
Accrual Adjustments		60		(23)
Total Custodial Revenue		14,734		14,506
Disposition of Collections				
Transferred to Federal Agencies				
U.S. Department of the Treasury		(14,345)		(14,210)
Refunds and Other Payments		(389)		(296)
Net Custodial Activity (Note 17)	$	-	$	-

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 principle 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 2010 and 2009, 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 $392 (net) of bulk purchases remaining in General Property, Plant and Equipment as of September 30, 2010, 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. ATF discloses the value of personal property when the individual item seized is worth $1,000 (dollars) or more. 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)

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 collections of fees receivable, 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.

In FY 2010 Other Liabilities 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.

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".

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

1. Summary of Significant Accounting Policies (continued)

M. Annual, Sick, and Other Leave (continued)

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 2010 and 2009 (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 11.2 percent (24.9 percent for those personnel classified as law enforcement agents). The total contribution was 12.0 percent in FYs 2010 and 2009 and (26.2 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.

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.

1. **Summary of Significant Accounting Policies (continued)**

O. Retirement Plans (continued)

ATF recognizes the full cost of providing future pension and other retirement benefits (ORB) for current employees as required by the Statement of Federal Financial Accounting Standards (SFFAS) No. 5. 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 Benefits (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.

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-

1. Summary of Significant Accounting Policies (continued)

Q. Intragovernmental Activity (continued)

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

1. Summary of Significant Accounting Policies (continued)

(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:

- ☐ 15100700 - *Salaries and Expenses Appropriation and Reimbursable Authority*
- ☐ 15X0700 - *No-year Appropriation for National Center for Explosives Training and Research and Spectrum Relocation Fund*
- ☐ 15X0720 - *No year Appropriation for Construction Funding*
- ☐ 1509/100700 - *Two-year Appropriation for High Intensity Drug Trafficking Area Initiative, Ballistic Tech and Gunrunner Supplemental and IRAQ Supplemental Funding*
- ☐ 1509/100699 – *Two-year Appropriation for Stimulus (ARRA) 2009/2010*
- ☐ 15X8526 - *Violent Crime Impact Team*
- ☐ 1510/110700 – *Southwest Border Supplemental*

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 ten expired funds which are under ATF control.

1. Summary of Significant Accounting Policies (continued)

(3) Other Financing Sources (continued)

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, "Accounting for Liabilities of the Federal Government."

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.

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.

1. Summary of Significant Accounting Policies (continued)

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 2009 financial statements were reclassified to conform to the FY 2010 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, 2010 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.

(Dollars in Thousands, Except as Noted)

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, 2010 and 2009

	2010	2009
With the Public		
Cash and Monetary Assets	$ 44,372	$ 2,436
Total Entity Assets	517,362	498,276
Total Assets	$ 561,734	$ 500,712

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(Dollars in Thousands, Except as Noted)

3. Fund Balance with U.S. Treasury

As of September 30, 2010 and 2009

	2010	2009
Fund Balances		
Trust Funds	$ 1,029	$ 1,050
General Funds	260,107	256,382
Total Fund Balances with U.S. Treasury	$ 261,136	$ 257,432
Status of Fund Balances		
Unobligated Balance - Available	$ 53,461	$ 44,648
Unobligated Balance - Unavailable	56,670	37,547
Obligated Balance not yet Disbursed	155,645	179,142
Other Funds (With)/Without Budgetary Resources	(4,640)	(3,905)
Total Status of Fund Balances	$ 261,136	$ 257,432

As of September 30, 2010 and 2009, Other Funds (With)/Without Budgetary Resources consisted of amounts held in other entity funds as Agent Cashier.

(Dollars in Thousands, Except as Noted)

4. Cash and Monetary Assets

As of September 30, 2010 and 2009

	2010	2009
Cash		
Imprest Funds	$ 4,637	$ 3,905
Other Cash	41,362	-
	45,999	3,905
Monetary Assets		
Seized Monetary Instruments	3,010	2,436
Total Cash and Monetary Assets	$ 49,009	$ 6,341

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, 2010 and 2009

	2010	2009
Intragovernmental		
Accounts Receivable	$ 28,291	$ 18,612
With the Public		
Accounts Receivable	203	159
Allowance for Uncollectible Accounts	(41)	(60)
Total With the Public	162	99
Total Accounts Receivable	$ 28,453	$ 18,711

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 $3,010 as of September 30, 2010, and $2,436 as of September 30, 2009. Seized cash deposited is recorded as an asset under cash and monetary assets along with the offsetting liability under seized cash and monetary instruments.

In accordance with Departmental guidance, personal property seized for evidentiary purposes is disclosed when an individual item has a market value at the time of seizure of $1,000 (dollars) or more. ATF adopted the Department's $1,000 (dollars) disclosure threshold in FY 2009. Prior to FY 2009, ATF disclosed all individual seizures regardless of value. The effect of this change to conform to Departmental guidance is shown in FY 2009 in the "adjustments" column.

(Dollars in Thousands, Except as Noted)

6. Seized Property (continued)

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.

For the Fiscal Year Ended September 30, 2009

Seized Property Category		Beginning Balance	Adjust-ments*	Seizures	Disposals	Ending Balance
Seized for Evidence						
Seized Cash Deposited and Seized Monetary Instruments	Value	$ 3,784		$ 6,237	$ 7,585	$ 2,436
Personal Property	Number	50,640	(50,604)	163	19	180
	Value	$ 504		$ 1,725	$ 343	$ 1,886
Non-Valued Firearms	Number	15,342	-	5,538	6,706	14,174

* Adjustments include property status and valuation changes received after, but properly credited to FY 2008.

6. Seized Property (continued)

Method of Disposition of Seized Property:

Items seized for evidence during fiscal years FY 2010 and FY 2009, were 5,959, with a value of $256, and 6,725 with a value of $343, respectively, were returned to parties with a bonafide interest or disposed of by other means. Additionally, $7,954 and $7,585 of seized cash was returned in FY 2010 and FY 2009, respectively. All property seized as evidence was generally returned to the person from whom it was seized or to their designee. If items were not returned, they were destroyed, donated, transferred, sold or liquidated. However, evidence may be destroyed if its value is less than $250 dollars and, after due diligence, the special agent has not found the person from whom it was seized or their designee.

Analysis of Drug Evidence:

Unanalyzed drug evidence is qualitatively different from analyzed and bulk drug evidence because unanalyzed drug evidence includes the weight of packaging and drug categories are based on the determination of Special Agents instead of laboratory chemists. For these reasons, unanalyzed drug evidence is not reported by ATF.

(Dollars in Thousands, Except as Noted)

7. General Property, Plant and Equipment, Net

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	

As of September 30, 2009	Acquisition Cost	Accumulated Depreciation	Net Book Value	Service Life
Land and Land Rights	$ 3,200	$ -	$ 3,200	N/A
Improvements to Land	4,518	(251)	4,267	15 yrs
Construction in Progress	15,414	-	15,414	N/A
Buildings, Improvements, and Renovations	104,883	(17,633)	87,250	40 yrs
Vehicles	37,621	(28,958)	8,663	3-6 yrs
Equipment	99,532	(87,431)	12,101	3-10 yrs
Assets Under Capital Lease	5,378	(1,796)	3,582	5-6 yrs
Leasehold Improvements	109,348	(57,863)	51,485	2-20 yrs
Internal Use Software	12,864	(7,104)	5,760	3-7 yrs
Internal Use Software in Development	4,959	-	4,959	N/A
Total	$ 397,717	$ (201,036)	$ 196,681	

(Dollars in Thousands, Except as Noted)

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

PP&E Net Changes During 2010 and 2009

	2010	2009
Net Changes from Federal Sources		
Construction in Progress	$ 16,001	$ 11,856
Improvements to Land	-	2,075
Buildings, Improvements, and Renovations	14	1,586
Vehicles	3,407	3,235
Equipment	651	2,513
Leasehold Improvements	1,635	1,823
Internal Use Software	741	717
Total purchased from Federal Sources	$ 22,449	$ 23,805
Net Changes from the Public		
Construction in Progress	$ 468	$ (348)
Buildings, Improvements, and Renovations	-	357
Equipment	4,837	2,076
Assets Under Capital Lease	173	5,378
Leasehold Improvements	180	751
Internal Use Software	3,347	4,251
Total purchased from the Public	9,005	12,465
Total Capitalized Purchases	$ 31,454	$ 36,270

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 Ammendale, Maryland that is recorded at its acquisition value. There are no restrictions on the use or convertibility of property and equipment.

The National Center for Explosive Research is currently under construction at the Redstone Arsenal with costs to date of $29 million and new costs in FY 2010 of $15 million.

(Dollars in Thousands, Except as Noted)

8. Other Assets

As of September 30, 2010 and 2009

	2010	2009
Intragovernmental		
Advances and Prepayments	$ 14,294	$ 20,584
Other Intragovernmental Assets	55	110
Total Other Assets	$ 14,349	$ 20,694

As of September 30, 2010, prepayments consisted of $11,376 to General Services Administration (GSA), $2,862 to Treasury Working Capital Fund (WCF) and $56 to Department of Defense. The remaining $55 was due to ATF from Treasury's General Fund. September 30, 2009, prepayments consisted of $17,065 to GSA, $3,206 to WCF, and $313 to State Department. The remaining $110 was due to ATF from Treasury's General Fund.

(Dollars in Thousands, Except as Noted)

9. Liabilities not Covered by Budgetary Resources

As of September 30, 2010 and 2009

	2010	2009
Intragovernmental		
Accrued FECA Liabilities	$ 19,567	$ 19,751
Other Post-Employment Benefits Due and Payable	58	46
Other Unfunded Employment Related Liabilities	32	40
Total Intragovernmental	19,657	19,837
With the Public		
Actuarial FECA Liabilities	107,012	105,498
Accrued Annual and Compensatory Leave Liabilities	52,408	48,600
Contingent Liabilities (Note 13)	3,505	3,500
Total With the Public	162,925	157,598
Total Liabilities not Covered by Budgetary Resources	182,582	177,435
Total Liabilities Covered by Budgetary Resources	147,711	106,501
Total Liabilities	$ 330,293	$ 283,936

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 are liquidated by the assets of the entities holding these liabilities. These are liabilities related to future employee and contingent related expenses.

(Dollars in Thousands, Except as Noted)

10. Leases

Capital Leases	2010	2009
Summary of Assets Under Capital Lease		
Machinery and Equipment	$ 5,550	$ 5,378
Accumulated Depreciation	2,466	1,796
Total Assets Under Capital Lease (Note 7)	$ 3,084	$ 3,582

Future Capital Lease Payments Due

Fiscal Year	Machinery and Equipment
2011	1,030
2012	884
2013	557
Total Future Capital Lease Payments	$ 2,471
Less: Imputed Interest	(62)
Less: Executory Costs	(534)
FY 2010 Net Capital Lease Liabilities	$ 1,875
FY 2009 Net Capital Lease Liabilities	$ 3,241

	2010	2009
Net Capital Lease Liabilities Covered by Budgetary Resources	$ 1,875	$ 3,241

The capital leases are comprised of three computer servers and 257 postage meters and associated equipment. The total capital asset value is $5,550 with accumulated depreciation of $2,466. For FY 2010, capital lease liability for machinery and equipment was $1,875. ATF expects to own the computer servers 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.

ATF has completed lease payments on two servers, which will continue to be depreciated until the end of their useful life. The lease on the third server will amortize through FY 2012 and includes a bargain purchase price of $37. The postal lease amortizes through FY 2013.

(Dollars in Thousands, Except as Noted)

10. Leases (continued)

As of September 30, 2010 and 2009

Operating Lease Expenses

Lease Type	2010	2009
Noncancelable Operating Leases	$ 2,432	$ 987
Cancelable Operating Leases	123,800	121,707
Total Operating Lease Expenses	$ 126,232	$ 122,694

Future Operating Lease Payments Due:

Fiscal Year	Buildings
2011	$ 2,450
2012	2,468
2013	2,487
2014	2,506
2015	2,525
After 2015	5,086
Total Future Noncancelable Operating Lease Payments	$ 17,522

The operating leases are comprised of machinery, equipment, buildings, copiers, computers, and other office equipment. For FY 2010, the cancelable operating leases expense for buildings was $71,463 and for machinery and equipment was $52,337. For FY 2009, the cancelable operating leases expense for buildings was $77,929 and for machinery and equipment was $43,778.

11. Seized Cash and Monetary Instruments

ATF's seized monetary instruments were $3,010 as of September 30, 2010, and $2,436 as of September 30, 2009. 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.

(Dollars in Thousands, Except as Noted)

12. Other Liabilities

As of September 30, 2010 and 2009

	2010	2009
Intragovernmental		
Employer Contributions and Payroll Taxes Payable	$ 9,303	$ 8,246
Other Post-Employment Benefits Due and Payable	58	46
Other Unfunded Employment Related Liabilities	32	40
Total Intragovernmental	9,393	8,332
With the Public		
Accrued Liabilites - Taxpayer/Licensee	54	110
Other Liabilities	41,362	-
Total the Public	41,416	110
Total Other Liabilities	$ 50,809	$ 8,442

All Other Liabilities are considered current. In FY 2010 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.

(Dollars in Thousands, Except as Noted)

13. Contingencies and Commitments

	Accrued Liabilities	Estimated Range of Loss	
		Lower	Upper
As of September 30, 2010			
Probable	$ 3,505	$ 3,505	$ 3,505
Reasonably Possible		6,000	6,000
As of September 30, 2009			
Probable	$ 3,500	$ 3,500	$ 3,500
Reasonably Possible		7,501	7,501

(Dollars in Thousands, Except as Noted)

14. Net Cost of Operations by Suborganization

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 (Revenue) of Operations	880,769	270,616	23,390	1,174,775
Net Cost (Revenue) of Operations	$ 883,108	$ 275,401	$ 23,451	$ 1,181,960

(Dollars in Thousands, Except as Noted)

14. Net Cost of Operations by Suborganization (continued)

For the Fiscal Year Ended September 30, 2009

	Suborganizations			
	Firearms	Explosives and Arson	Alcohol and Tobacco	Consolidated
Goal 1: Prevent Terrorism and Promote the Nation's Security				
Cost of Operations	$ 2,441	$ 5,810	$ 70	$ 8,321
Goal 2: Prevent Crime, Enforce Federal Laws, and Represent the Rights and Interests of the American People				
Gross Cost	847,866	284,267	21,185	1,153,318
Less: Earned Revenue	40,833	14,004	719	55,556
Net Cost (Revenue) of Operations	807,033	270,263	20,466	1,097,762
Net Cost (Revenue) of Operations	$ 809,474	$ 276,073	$ 20,536	$ 1,106,083

ATF activity primarily supports DOJ's goal to Prevent Crime, Enforce Federal Laws, and Represent the Rights and Interests of the American People. ATF activity 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. For employees covered by Civil Service Retirement System (CSRS), the cost factors are 30.1% of basic pay for regular, 51.1% law enforcement officers, 23.5% regular offset, and 45.6% law enforcement officers offset. For employees covered by Federal Employees Retirement System (FERS), the cost factors are 13.8% of basic pay for regular and 29.8% for law enforcement officers.

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.

(Dollars in Thousands, Except as Noted)

15. Imputed Financing Costs Absorbed by Others (continued)

For the Fiscal Years Ended September 30, 2010 and 2009

	2010	2009
Imputed Inter-Departmental Financing		
Treasury Judgment Fund	$ 1,246	$ 386
Health Insurance	25,445	25,362
Life Insurance	107	102
Pension	12,466	7,276
Total Imputed Inter-Departmental	$ 39,264	$ 33,126

The Treasury Judgment Fund payments for FY 2010 and FY 2009 were $1,246 and $386, respectively; these amounts were paid by the Fund 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, 2010 and September 30, 2009, total $12,466 and $7,276, respectively. Similarly, OPM, rather than ATF, reports liabilities for future payments to retired employees who participate in the Federal Employee Health Benefits Program (FEHBP) and the Federal Employee Group Life Insurance (FEGLI) Program. The FY 2010 and FY 2009 FEHBP cost factors applied to a weighted average number of employees enrolled in the FEHBP was $1,517 (dollars) and $1,403 (dollars), respectively, which produced a $25,445 and $25,362 imputed cost, respectively. The FY 2010 and FY 2009 FEGLI cost factor for employees enrolled in the FEGLI program, as provided by OPM, was .02 percent of their basic pay. The FEGLI amounts totaling $107 at September 30, 2010, and $102 at September 30, 2009 were also included as an expense and imputed financing source in ATF's financial statements.

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.

(Dollars in Thousands, Except as Noted)

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.

	Direct Obligations	Reimbursable Obligations	Total Obligations Incurred
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	$ 1,155,484	$ 102,650	$ 1,258,134
For the Fiscal Year Ended September 30, 2009			
Obligations Apportioned Under			
Category A	$ 1,125,403	$ 94,032	$ 1,219,435
Category B	7,161	-	7,161
Total	$ 1,132,564	$ 94,032	$ 1,226,596

(Dollars in Thousands, Except as Noted)

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, 2010 and 2009

	2010	2009
UDO Obligations Unpaid	$ 124,631	$ 137,637
UDO Obligations Prepaid/Advanced	15,963	21,437
Total UDO	$ 140,594	$ 159,074

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, 2010, is not presented because the submission of the Budget of the United States Government (Budget) for FY 2012, which presents the execution of the FY 2010 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 should be available by early February 2011.

For the Fiscal Year Ended September 30, 2009
(Dollars in millions)

	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
Statement of Budgetary Resources (SBR)	$ 1,309	$ 1,227	$ -	$ 1,062
Funds not Reported in the Budget				
Expired Funds	(78)	(56)		
Budget of the United States Government	$ 1,231	$ 1,171	$ -	$ 1,062

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. In addition, Special Occupational Taxes are collected from certain firearms businesses. 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 $14,674 and $14,529 for the fiscal years ended September 30, 2010 and 2009, 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, 2010 and 2009.

(Dollars in Thousands, Except as Noted)

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

For the Fiscal Years Ended September 30, 2010 and 2009	2010	2009
Resources Used to Finance Activities		
Budgetary Resources Obligated		
Obligations Incurred	$ 1,258,134	$ 1,226,596
Less: Spending Authority from Offsetting Collections and Recoveries	131,116	169,958
Obligations Net of Offsetting Collections and Recoveries	1,127,018	1,056,638
Less: Offsetting Receipts	622	247
Net Obligations	1,126,396	1,056,391
Other Resources		
Transfers-In/Out Without Reimbursement	2,407	2,173
Imputed Financing from Costs Absorbed by Others (Note 15)	39,264	33,126
Net Other Resources Used to Finance Activities	41,671	35,299
Total Resources Used to Finance Activities	**1,168,067**	**1,091,690**
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	19,989	17,972
Resources That Fund Expenses Recognized in Prior Periods (Note 19)	(192)	(86)
Budgetary Offsetting Collections and Receipts That do not Affect Net Cost of Operations	622	247
Resources That Finance the Acquisition of Assets	(31,454)	(36,270)
Total Resources Used to Finance Items not Part of the Net Cost of Operations	(11,035)	(18,137)
Total Resources Used to Finance the Net Cost of Operations	**$ 1,157,032**	**$ 1,073,553**

(Dollars in Thousands, Except as Noted)

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

For the Fiscal Years Ended September 30, 2010 and 2009	2010	2009
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)	$ 5,276	$ 6,754
Depreciation and Amortization	21,466	20,787
Revaluation of Assets or Liabilities	(1,814)	4,989
Total Components of Net Cost of Operations That Will not Require or Generate Resources in the Current Period	24,928	32,530
Net Cost of Operations	**$ 1,181,960**	**$1,106,083**

(Dollars in Thousands, Except as Noted)

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 $182,582 and $177,435 on September 30, 2010 and 2009, 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, 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, 2010 and 2009

	2010	2009
Resources that Fund Expenses Recognized in Prior Periods		
Decrease in Accrued FECA Liabilities	(184)	-
Decrease in Other Unfunded Employment Related Liabilities	(8)	(86)
Total Resources that Fund Expenses Recognized in Prior Periods	$ (192)	$ (86)
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	$ 3,704
Other		
Increase in Actuarial FECA Liabilities	1,514	2,676
Increase in Other Post Employment Benefits Due & Payable	12	46
Increase in Accrued FECA Liabilities	-	215
Increase in Contingent Liabilities	5	-
Decrease/(Increase) in Receivable from the Public	(63)	113
Total Other	1,468	3,050
Total Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods	$ 5,276	$ 6,754

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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

Dollars in Thousands	For the Fiscal Year Ended September 30, 2010			For the Fiscal Year Ended September 30, 2009		
	2010			2009		
Budgetary Resources	**Appropriated**	**Trust Funds**	**Cumulative**	**Appropriated**	**Trust Funds**	**Cumulative**
Unobligated Balance, Brought Forward, October 1	$ 81,166	$ 1,029	$ 82,195	$ 52,942	$ 1,029	$ 53,971
Recoveries of Prior Year Unpaid Obligations	38,221	-	38,221	80,237	5	80,242
Budget Authority						
Appropriations Received	1,158,272	-	1,158,272	1,068,215	-	1,068,215
Spending Authority from Offsetting Collections						
Earned						
Collected	81,707	-	81,707	61,800	-	61,800
Change in Receivables from Federal Sources	9,679	-	9,679	(5,500)	-	(5,500)
Change in Unfilled Customer Orders	-					
Without Advance from Federal Sources	1,509	-	1,509	33,421	-	33,421
Subtotal Budget Authority	1,251,167	-	1,251,167	1,157,936	-	1,157,936
Nonexpenditure Transfers, Net, Anticipated and Actual	(3,318)	-	(3,318)	16,647	-	16,647
Total Budgetary Resources	**$ 1,367,236**	**$ 1,029**	**$ 1,368,265**	**$ 1,307,762**	**$ 1,034**	**$ 1,308,796**

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

Dollars in Thousands	For the Fiscal Year Ended September 30, 2010			For the Fiscal Year Ended September 30, 2009		
	2010			2009		
Status of Budgetary Resources						
Obligations Incurred						
Direct	$ 1,155,484	$ -	$ 1,155,484	$ 1,132,564	$ -	$ 1,132,564
Reimbursable	102,650	-	102,650	94,032	-	94,032
Total Obligations Incurred	1,258,134	-	1,258,134	1,226,596	-	1,226,596
Unobligated Balance - Available						
Apportioned	53,461	-	53,461	44,648	-	44,648
Total Unobligated Balance - Available	53,461	-	53,461	44,648	-	44,648
Unobligated Balance not Available	55,641	1,029	56,670	36,518	1,029	37,547
Total Status of Budgetary Resources	**$ 1,367,236**	**$ 1,029**	**$ 1,368,265**	**$ 1,307,762**	**$ 1,029**	**$ 1,308,791**
Change in Obligated Balance						
Obligated Balance, Net - Brought Forward, October 1						
Obligated Balance Transferred, Net (Note 20)						
Unpaid Obligations	$ 238,351	$ -	$ 238,351	$ 215,881	21	$ 215,902
Less: Uncollected Customer Payments from Federal Sources	59,209	-	59,209	31,288	-	31,288
Total Unpaid Obligated Balance, Net - Brought Forward, October 1	179,142	-	179,142	184,593	21	184,614
Obligations Incurred	1,258,113	21	1,258,134	1,226,596	-	1,226,596
Less: Gross Outlays	1,232,201	21	1,232,222	1,123,910	-	1,123,910
Less: Recoveries of Prior Year Unpaid Obligations, Actual	38,221	-	38,221	80,237	-	80,237
Change in Uncollected Customer Payments from Federal Sources	(11,188)	-	(11,188)	(27,921)	-	(27,921)
Obligated Balance, Net - End of Period						
Unpaid Obligations	226,042	-	226,042	238,330	21	238,351
Less: Uncollected Customer Payments from Federal Sources	70,397	-	70,397	59,209	-	59,209
Total Unpaid Obligated Balance, Net - End of Period	**$ 155,645**	**$ -**	**$ 155,645**	**$ 179,121**	**$ 21**	**$ 179,142**
Net Outlays						
Gross Outlays	$ 1,232,201	$ 21	$ 1,232,222	$ 1,123,910	$ -	$ 1,123,910
Less: Offsetting Collections	81,707	-	81,707	61,800	-	61,800
Less: Distributed Offsetting Receipts	622	-	622	247	-	247
Total Net Outlays	**$ 1,149,872**	**$ 21**	**$ 1,149,893**	**$ 1,061,863**	**$ -**	**$ 1,061,863**

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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.** This recommendation can be closed when subsequent financial statement audit testing verifies that ATF has established stronger oversight controls for processing accounts payable, obligation, and deobligation transactions.