

Notice:

This document does not currently comply with Section 508 of the Rehabilitation Act of 1973, as amended, 29 U.S.C. § 794d. The OIG is working to become fully compliant with the provisions of Section 508. If you need assistance with accessing the file, please contact the OIG's Office of Audit at (202) 927-5400, or webmaster@oig.treas.gov for an accessible edition of the report.

**FINANCIAL MANAGEMENT:
Report on Internal Control Over
Financial Reporting of the
Bureau of Alcohol, Tobacco and Firearms
For Fiscal Year 2002**

OIG-03-044

January 2, 2003



Office of Inspector General



OFFICE OF
INSPECTOR GENERAL

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

JAN 2 2003

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

FROM: William H. Pugh *William H. Pugh*
Deputy Assistant Inspector General
For Financial Management and Information
Technology Audits

SUBJECT: Report on Internal Control over Financial
Reporting of the Bureau of Alcohol, Tobacco and
Firearms for Fiscal Year 2002

I am pleased to transmit the attached report on Internal Control over Financial Reporting of the Bureau of Alcohol, Tobacco and Firearms (ATF) as of and for the Fiscal Year (FY) ended September 30, 2002. We contracted with KPMG LLP, an Independent Public Accountant (IPA), to examine ATF's internal control over financial reporting for its Revenue/Accounts Receivable/Cash Receipts; Procurement/Accounts Payable/Cash Disbursements; Property, Plant and Equipment; and Payroll accounting cycles. The IPA performed the examination in accordance with the American Institute of Certified Public Accountants' Statement on Standards for Attestation Engagements Number 10 and generally accepted government auditing standards. Attached is the Independent Accountants' Report on Internal Control over Financial Reporting.

In its report, the IPA concluded that ATF maintained, in all material respects, effective internal control over financial reporting for its Revenue/Accounts Receivable/Cash Receipts; Procurement/Accounts Payable/Cash Disbursements; Property, Plant and Equipment; and Payroll accounting cycles as of and for the year ended September 30, 2002, based on the *Standards of Internal Control in the Federal Government*, issued by the United States General Accounting Office. However, the IPA noted two reportable conditions related to information technology and other matters involving internal control over financial reporting that have been reported in two separate letters.

Page 2

My staff's review of the IPA's working papers determined that the work was performed in accordance with generally accepted government auditing standards. Should you have any questions, please contact me at (202) 927-5430, or a member of your staff may contact Louis King, Director, Financial Audits at (202) 927-5774.

Attachment



2001 M Street, N.W.
Washington, D.C. 20036

Independent Auditors' Report on Internal Control over Financial Reporting

Director
Bureau of Alcohol, Tobacco and Firearms:

Office of Inspector General
U. S. Department of the Treasury:

We have examined the effectiveness of the Bureau of Alcohol, Tobacco and Firearms' (ATF's), internal control over financial reporting for its Revenue/Accounts Receivable/Cash Receipts; Procurement/Accounts Payable/Cash Disbursements; Property, Plant and Equipment; and Payroll accounting cycles (the processes), as of and for the year ended September 30, 2002, based on the *Standards for Internal Control in the Federal Government* (the Standards), issued by the General Accounting Office (GAO) in November 1999. ATF's management is responsible for maintaining effective internal control over financial reporting for these processes. Our responsibility is to express an opinion on the effectiveness of internal control over these processes based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included obtaining an understanding of the internal control over financial reporting for the processes, testing and evaluating the design and operating effectiveness of internal control, and performing other such procedures we considered necessary under the circumstances. We believe that our examination provides a reasonable basis for our opinion.

Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of internal control over financial reporting for the processes to future periods are subject to the risk that the internal control may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, ATF has maintained, in all material respects, effective internal control over financial reporting for its Revenue/Accounts Receivable/Cash Receipts; Procurement/Accounts Payable/Cash Disbursements; Property, Plant and Equipment; and Payroll accounting cycles as of and for the year ended September 30, 2002, based on the Standards referred to above.

However, we noted two reportable conditions related to information technology general and application controls and other matters involving internal control over financial reporting for these processes that we have reported to the management of ATF in two separate letters dated November 8, 2002.

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

KPMG LLP

November 8, 2002



KPMG LLP, KPMG LLP a U.S. limited liability partnership, is a member of KPMG International, a Swiss association.