

United States General Accounting Office

GAO

Report to the Chairman, Subcommittee  
on Oversight, Committee on Ways and  
Means, House of Representatives

BATF

AD-A263 312



# Management Improvements Needed to Handle Increasing Responsibilities



GAO/GGD-91-67

93-09080



93428 057



United States  
General Accounting Office  
Washington, D.C. 20548

General Government Division

B-242044

March 19, 1991

The Honorable J. J. Pickle  
Chairman, Subcommittee on Oversight  
Committee on Ways and Means  
House of Representatives

Dear Mr. Chairman:

In response to your request, this report discusses various management improvements that we believe would help the Bureau of Alcohol, Tobacco and Firearms (BATF) handle its growing compliance and law enforcement responsibilities.

As arranged with the Subcommittee, we are sending copies of this report to other congressional committees, the Secretary of the Treasury, the Director of BATF, and other interested parties.

The major contributors to this report are listed in appendix IV. Please contact me on (202) 272-7904 if you or your staff have any questions concerning this report.

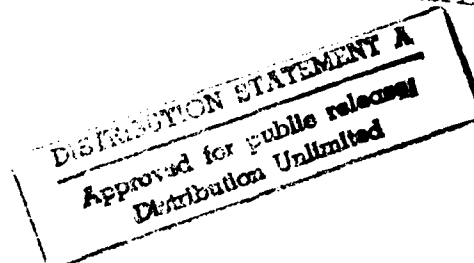
Sincerely yours,

*Paul L. Posner*

Paul L. Posner  
Associate Director, Tax Policy  
and Administration Issues



DTIC QUALITY INSPECTED 4



Accession For	
NTIS GRA&I	<input checked="" type="checkbox"/>
DTIC TAB	<input type="checkbox"/>
Unannounced	<input type="checkbox"/>
Justification	
By	
Distribution/	
Availability Codes	
Dist	Avail and/or Special
A-1	

---

# Executive Summary

---

## Purpose

Recently, the Bureau of Alcohol, Tobacco and Firearms' (BATF) participation in the war on drugs and in combating violent crime has added significance to its law enforcement mission. BATF has a second mission, however—enforcing compliance with the excise tax laws applying to the industries it regulates—and those responsibilities have also been increasing. Thus BATF's dilemma is how to effectively manage the increased duties and competing demands. Prepared in response to a request from the Subcommittee on Oversight, House Committee on Ways and Means, this report discusses how BATF's duties have changed and includes GAO's views on steps BATF could take to use its resources more efficiently.

---

## Background

BATF operates on an appropriation of about \$300 million and has about 4,000 staff years divided among its two major components—Compliance Operations and Law Enforcement.

Compliance Operations regulates the alcohol, tobacco, firearms, and explosives industries and collects related excise taxes. One way it regulates the alcohol industry, for example, is by testing samples of products on the market. In fiscal year 1990, BATF collected \$5.8 billion in alcohol excise taxes, \$4.3 billion in tobacco excise taxes, and \$130 million in special occupational taxes imposed on businesses that sell alcohol, tobacco, and firearms.

Law Enforcement is responsible for enforcing federal firearms and explosives laws. It investigates such things as firearms trafficking, large-scale thefts of firearms, and terrorism, and it helps local law enforcement agencies investigate arsons involving interstate commerce.

GAO based its analysis of BATF activities on (1) information obtained from BATF officials in Washington, D.C., and at various field locations; (2) representatives from the alcohol and firearms industries; and (3) officials from federal and local agencies who work with BATF.

---

## Results in Brief

BATF's duties have increased over the past few years. Its law enforcement efforts in the firearms area have grown, for example, as its expertise has become critical to the government's antidrug effort. BATF has also assumed several new compliance duties, including (1) the collection of special occupational taxes, which it assumed from the Internal Revenue Service (IRS) in July 1987; (2) the testing of alcoholic beverages in response to consumer complaints, which it assumed from the Food and

---

Drug Administration in November 1987; and (3) the collection of fire-arms and excise taxes, which it assumed from IRS in January 1991.

With its additional duties, BATF has had to make trade-offs in deciding how best to use its staff. One result of those trade-offs has been a reduction in tax compliance inspections of alcohol producers. Similarly, the demand for BATF's accounting expertise in investigating the financial aspects of arson-for-profit cases has reduced the availability of that expertise to work on tax compliance matters.

BATF could take actions, such as increasing the amount of accounting expertise within its inspector workforce, that would help minimize the detrimental effects of such trade-offs on its tax compliance mission. GAO identified other actions that BATF could take to better ensure that its resources are being used efficiently.

---

## Principal Findings

---

### Growing Compliance Workload Could Increase the Risk of Noncompliance With Excise Tax Laws

Over the past few years, BATF's compliance responsibilities have increased. To effectively deal with that increase, Compliance Operations has had to make trade-offs. One result of those trade-offs was a reduction in the number of staff hours spent on tax compliance inspections of alcohol producers from about 94,000 in fiscal year 1988 to about 67,000 in fiscal year 1990, a 30-percent decrease. (See pp. 19-23.)

Compliance Operations' small cadre of auditors provide another example of how competing demands have caused a shift in resource usage. Although Compliance Operations originally started hiring auditors to do tax compliance work, the approximately 40 auditors stationed in the field now spend almost all of their time assisting the Office of Law Enforcement in arson-for-profit investigations.

Tax compliance inspections are now done by inspectors, who are not required to have any college level accounting courses. BATF officials said they encourage inspectors to take accounting courses once they are on board and are considering making a minimum of 6 credit hours of college level accounting mandatory for advancement. GAO believes that a 12-hour minimum might be more appropriate. A BATF task force and a report issued in 1984 by a BATF consultant reached a similar conclusion. (See pp. 24-27.)

---

As of March 1991, according to BATF, 80 percent of the inspectors had at least 3 credits in college level accounting, but only 29 percent had 12 or more hours. The decrease in the number of inspections, combined with the fact that the inspections are done by staff who generally have little accounting expertise, raises questions about the extent to which excise taxes owed are being identified.

BATF does not periodically study the extent of compliance among businesses subject to the excise taxes it collects, and consequently GAO cannot determine the effect of all of this on excise tax compliance levels. BATF officials believe that the rate of compliance is very high—about 99 percent—based on their knowledge of the area and their inspection results. However, GAO cannot be sure that inspection results are a valid measure of compliance or to what extent they might be enhanced by increasing the level of accounting expertise or inspection coverage.

---

## BATF Could Take Steps to Improve Efficiency

Besides bringing more accounting expertise to bear on its tax compliance inspections, BATF could enhance its operational efficiency by (1) developing standard work plans, (2) analyzing more comprehensive data from previous tests of alcoholic beverages to better target its sampling program, and (3) developing better data on performance.

Work plans are required for each compliance inspection (23,596 in fiscal year 1990). The use of standard work plans would help ensure that a minimum amount of work is done at each inspection, work tasks are clearly set forth, and inspections are done on the basis of current policy. BATF acknowledged the need for standard work plans in response to the 1984 consultant's report but has yet to finish developing them. (See pp. 27 to 28.)

In deciding what to include in its sample test of alcohol products on the market, BATF gets input from knowledgeable persons, including chemists in the BATF labs where the products are tested.

Compliance Operations also reviews the results from recent laboratory test results. GAO believes that BATF could target its resources more effectively by analyzing a matrix of historical laboratory test results. According to BATF officials, such information is available on an existing database. Development and use of this management information system to target products would enable BATF to better analyze trends. (See pp. 28 to 30.)

---

BATF would also be better able to handle its workload and make necessary trade-offs if it had better data with which to assess its performance and to provide a basis for determining future directions. Information on compliance, such as the number of facilities inspected, is an example of data that would be useful. Also helpful would be data on the efficiency, quality, and timeliness of its law enforcement efforts, in addition to monitoring the number of cases and suspects referred for prosecution as BATF currently does. (See pp. 30 to 31 and 41 to 42.)

---

## Recommendations

BATF should increase the availability of accounting expertise for use on tax compliance inspections. Options it might consider include requiring that inspectors have at least 12 hours of college level accounting courses before becoming a journeyman (GS-11) inspector, and changing its inspector/auditor staffing mix by hiring auditors to fill vacated inspector positions.

BATF should also (1) develop standard work plans for its compliance inspections; (2) systematically analyze the results from several years of laboratory tests to help identify trends and target alcohol products for inclusion in its test samples; (3) periodically measure the extent of compliance with the taxes it is responsible for; and (4) develop more comprehensive performance measurement systems that include measures of quality, timeliness, and efficiency.

---

## Agency Comments

The views of responsible agency officials were sought during the course of GAO's work and have been incorporated where appropriate. The primary point of contention centered on the amount of accounting expertise needed for tax compliance inspections. BATF believes that less is needed than GAO contends. GAO continues to believe that its rationale for more expertise is sound.

---

# Contents

---

<b>Executive Summary</b>		<b>2</b>
<hr/>		
<b>Chapter 1</b>		<b>10</b>
<b>Introduction</b>	BATF's History	10
	BATF's Organization	11
	BATF's Budget	12
	Objectives, Scope, and Methodology	16
<hr/>		
<b>Chapter 2</b>		<b>19</b>
<b>Compliance</b>	Compliance Operations' Responsibilities Are Expanding	19
<b>Operations Needs to</b>	Compliance Operations' Growing Workload Could	21
<b>Better Ensure That Its</b>	Increase the Risk of Noncompliance With Excise Tax	
<b>Resources Are Used</b>	Laws	
<b>Efficiently</b>	Standard Work Plans Could Help Ensure Consistent	27
	Compliance Inspections	
	BATF's Alcohol Sampling Program Could Be Strengthened	28
	Better Use of Management Information Systems Could	30
	Help Compliance Operations Manage Its Growing	
	Workload	
	Conclusions	31
	Recommendations to the Director of BATF	33
<hr/>		
<b>Chapter 3</b>		<b>34</b>
<b>Growth in the Office</b>	Law Enforcement Has Spent Most of Its Time on Firearms	35
<b>of Law Enforcement</b>	and Explosives Cases	
<b>Has Increased</b>	Law Enforcement's Increasing Workload Has Resulted in	38
<b>Demands on Support</b>	Backlogs	
<b>Functions</b>	Law Enforcement Needs Better Management Information	41
	Conclusions	42
	Recommendation to the Director of BATF	43
<hr/>		
<b>Appendixes</b>	Appendix I: Description of the Taxes BATF Collected in	44
	Fiscal Year 1990	
	Appendix II: How BATF's Office of Law Enforcement	51
	Establishes Priorities	
	Appendix III: Organization Chart of the Bureau of	53
	Alcohol, Tobacco and Firearms	
	Appendix IV: Major Contributors to This Report	55

## Figures

Figure 1.1: BATF's Funding for Fiscal Years 1977 Through 1991	13
Figure 1.2: BATF's Staff Years for Fiscal Years 1977 Through 1991	14
Figure 1.3: Comparison of Staffing Levels in BATF's Law Enforcement and Compliance Operations Functions, Fiscal Years 1981 Through 1990	15
Figure 2.1: Percentage of Staff Years Spent on Compliance Operations' Four Program Areas in Fiscal Year 1990	20
Figure 3.1: Law Enforcement Cases and Suspects Recommended for Prosecution, Fiscal Years 1987 Through 1990	34
Figure 3.2: Percentage of Staff Years Spent on Law Enforcement's Four Program Areas in Fiscal Year 1990	36
Figure 3.3: Number of Firearms Traced, Fiscal Years 1981 Through 1990	39
Figure I.1: Number of Alcohol and Tobacco Excise Taxpayers	47
Figure I.2: BATF's Excise Tax Collections in Fiscal Year 1990	48
Figure I.3: BATF's Special Occupational Tax Collections, Fiscal Years 1982 Through 1990	49
Figure I.4: Firearms Transfer Taxes and Making Fees Collected by BATF, Fiscal Years 1981 Through 1990	50

## Tables

Table 1.1: Comparison of Funding and Staff Years for Compliance Operations and Law Enforcement	15
Table 2.1: Compliance Operations Inspections	22
Table I.1: Alcohol and Tobacco Excise Tax Rates for Fiscal Years 1990 and 1991	45
Table I.2: Rates of Other Taxes Administered by BATF in Fiscal Year 1990	46
Table I.3: Total Taxes Collected by BATF in Fiscal Year 1990	50



---

## **Contents**

---

---

## **Abbreviations**

<b>BATF</b>	<b>Bureau of Alcohol, Tobacco and Firearms</b>
<b>CIP</b>	<b>Crime Impact Program</b>
<b>FDA</b>	<b>Food and Drug Administration</b>
<b>IRS</b>	<b>Internal Revenue Service</b>
<b>LEMIS</b>	<b>Law Enforcement Management Information System</b>



# Introduction

At the request of the Subcommittee on Oversight, House Committee on Ways and Means, we examined the activities of the Bureau of Alcohol, Tobacco and Firearms (BATF). This report focuses on the role and responsibilities of BATF's two major functions—Compliance Operations and Law Enforcement—and discusses the efficiency of BATF's use of resources and the ability of its support functions to meet growing demands.

## BATF's History

BATF was established on July 1, 1972, by Department of the Treasury Order 221. This order transferred from the Internal Revenue Service (IRS) to BATF responsibility for regulating the production of alcoholic beverages, administering the alcohol and tobacco tax laws, and licensing and regulating the firearms and explosives industries.

BATF's alcohol and tobacco responsibilities stem from the Revenue Act of 1791. This act, the first important federal legislation concerning alcohol and tobacco taxation, established taxes on a wide variety of items, including spirits and snuff. The Federal Alcohol Administration Act of 1935 required licenses and permits to operate distilleries, wineries, and breweries and established regulations to ensure an open and fair marketplace for alcohol products. Treasury's Federal Alcohol Administration was responsible for enforcing that act until 1940, when it merged with IRS' Alcohol Tax Unit. This merger combined the related law enforcement and regulatory authorities that are now under BATF.

In 1978, BATF became responsible for enforcing the Contraband Cigarette Act and for helping states improve their enforcement and revenue collection capabilities. BATF's tobacco excise tax responsibilities are currently contained in chapter 52 of the Internal Revenue Code of 1986. These responsibilities include establishing and administering industry qualification and record keeping requirements; monitoring operations by manufacturers, importers, and exporters; and collecting excise taxes.

BATF's firearms and explosives responsibilities evolved with the passage of various pieces of legislation. Those responsibilities can be traced back to the National Firearms Act of 1934, which required importers, producers, and distributors of "gangster type" weapons (such as machine guns, sawed-off shotguns, and silencers) to register, pay taxes, and report weapons sales. The Federal Firearms Act of 1938 established limited regulation of the firearms industry and made it a federal crime for felons and fugitives to receive firearms through interstate commerce.

The Gun Control Act of 1968 created stricter controls for licensing and regulating the firearms industry and included controls over bombs and other destructive devices. The Organized Crime Control Act of 1970 required, among other things, the licensing of all manufacturers, importers, and dealers of explosives and established certain bombings and arsons as federal crimes. IRS administered these laws regulating the firearms and explosives industries until the responsibilities were transferred to BATF upon its establishment in 1972.

The Anti-Arson Act of 1982 gave BATF jurisdiction regarding arson and enhanced federal efforts to assist state and local agencies in combating arson-for-profit. Finally, the Comprehensive Crime Control Act of 1984, as amended in 1986 and 1988, mandated sentences of 5 years to life in prison for certain armed criminals. This increased BATF's role in the war on drugs because obtaining evidence regarding firearms possession or use is crucial in developing a federal case that is eligible for mandatory sentencing.

---

## BATF's Organization

BATF is headquartered in Washington, D.C., and is headed by a Director, who is appointed by the Secretary of the Treasury. It is a relatively small agency, with less than 4,000 permanent employees, most of whom are in BATF's two main operating units—Compliance Operations and the Office of Law Enforcement.

Compliance Operations has 3 headquarters divisions, 5 regional offices, 39 area offices, and 50 posts-of-duty around the country. Depending on its workload, each area office has one or more posts-of-duty. Chapter 2 discusses Compliance Operations' activities and priorities, and appendix I provides more specific information on its tax collection efforts.

As of March 1991, Compliance Operations had 481 authorized inspector positions in the field. Field inspectors visit alcohol, tobacco, firearms, and explosives facilities to (1) verify that the correct amount of tax is paid; (2) investigate trade practices to ensure that they do not foster unfair competition; and (3) inspect manufacturers, producers, importers, and some businesses that sell alcohol, tobacco, firearms, and explosives to ensure that they maintain accurate records and inventories. As of March 1991, Compliance Operations also had 42 auditors in the field who spend most of their time assisting the Office of Law Enforcement in investigating arsons.

To qualify as an inspector, applicants must have either a college degree or 3 years of general work experience and must pass a physical examination and background investigation. When hired, generally at the GS-5 level, inspectors are required to attend two basic training courses. Auditors must meet the same requirements as inspectors except that they are required to have a college degree in accounting.

Law Enforcement has 4 headquarters divisions, 22 district offices, and about 140 posts-of-duty. Law Enforcement has about 1,770 special agents who are primarily responsible for investigating individuals and groups suspected of violating federal firearms and explosives laws. To qualify as a special agent, applicants must pass the Treasury Enforcement Agent Examination, successfully complete a physical examination and drug screening, and obtain a top secret security clearance. When hired, generally at the GS-5 or 7 level, agents are required to attend two basic courses at the Federal Law Enforcement Training Center in Glynco, Ga. Chapter 3 discusses Law Enforcement's activities, and appendix II describes how Law Enforcement establishes its priorities.

As shown in the organization chart in appendix III, BATF has several offices that provide support for Law Enforcement and Compliance Operations, including the Office of Administration. Among other things, the Office of Administration operates three laboratories that are accredited by the American Society of Crime Lab Directors. The national laboratory in Rockville, Md., analyzes alcohol and tobacco products to ensure that they comply with public safety and tax regulations. The national laboratory also analyzes forensic evidence from firearms, arson, and bombing cases. The second lab, which is located near San Francisco, does alcohol and forensic analyses while a smaller lab in Atlanta specializes in forensic analyses. The three labs have a total of about 100 staff, including chemists, firearms examiners, fingerprinting examiners, physicists, and technicians.

---

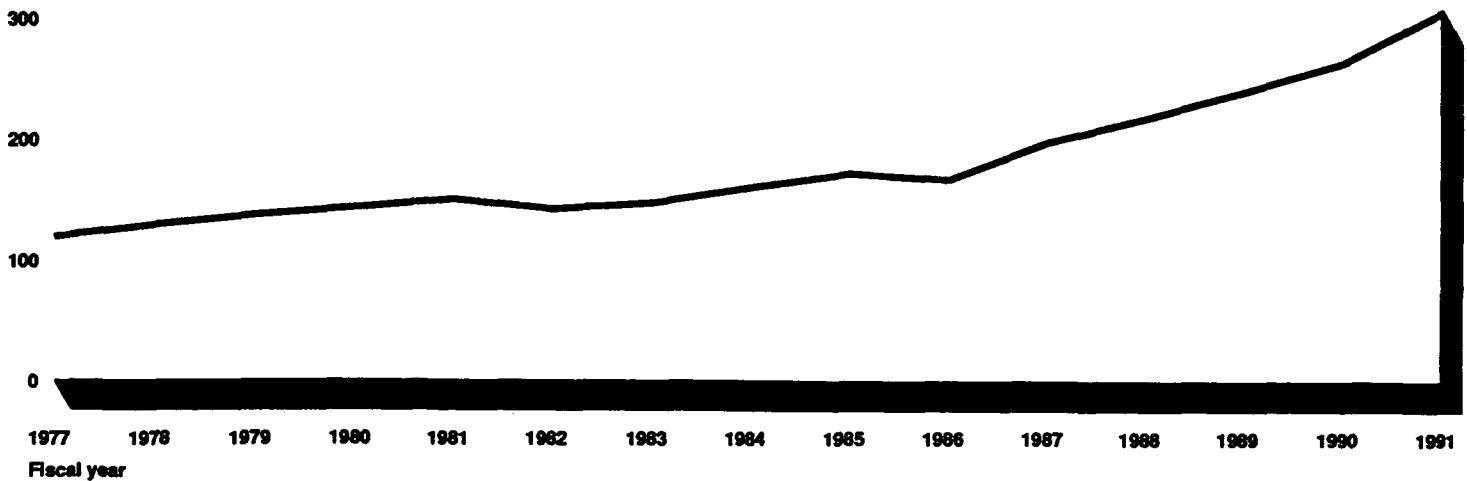
## BATF's Budget

In fiscal year 1981, the administration considered abolishing BATF and transferring its firearms and explosives responsibilities to the Secret Service and its alcohol and tobacco responsibilities to the Customs Service. It decided against such a move in 1983. During that time, BATF's staffing levels shrunk by about one-fourth because many employees, fearing loss of their jobs, left the agency. Funding levels for BATF during this period are shown in figure 1.1, and, as shown in figure 1.2, BATF has been slowly recouping its staffing losses. Every year since 1984, Congress has appropriated more money for BATF than requested by the

administration, and, except for a drop in fiscal year 1986, funding and staffing for BATF have steadily increased.

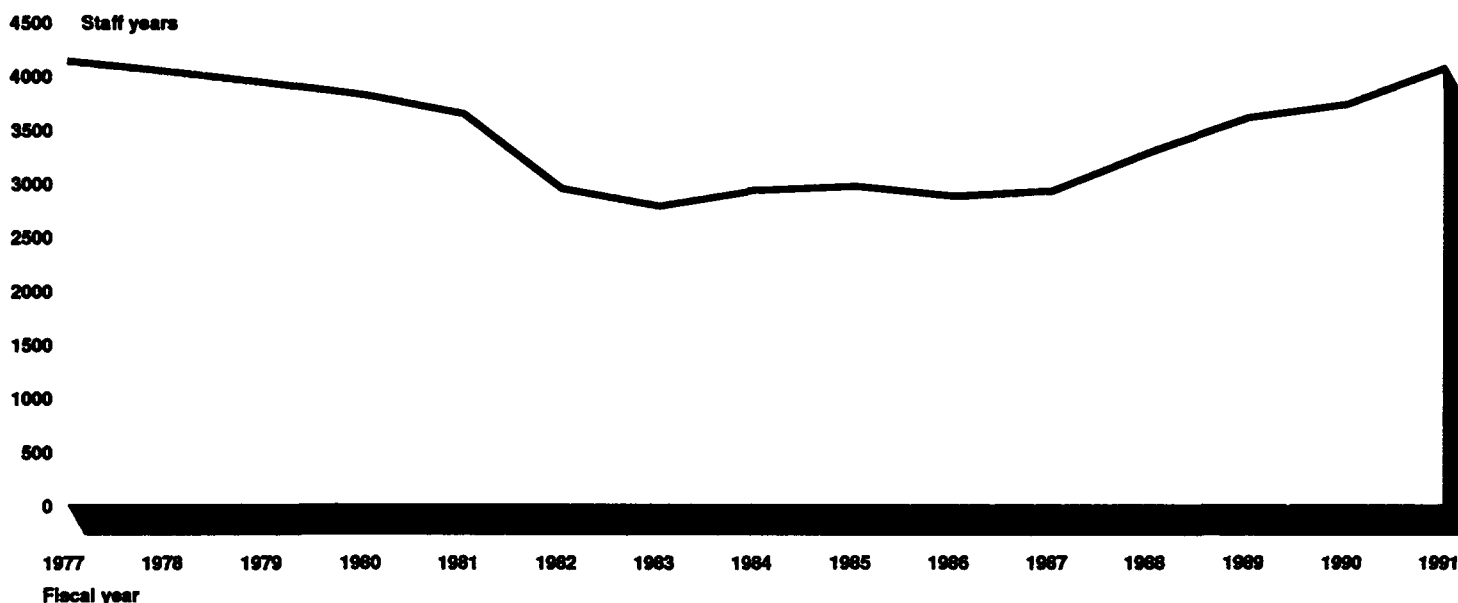
**Figure 1.1: BATF's Funding for Fiscal Years 1977 Through 1991**

400 Dollars in millions



Note: Amounts for fiscal years 1977 through 1990 are actual dollars; amount for fiscal year 1991 is authorized funding.  
Source: BATF data.

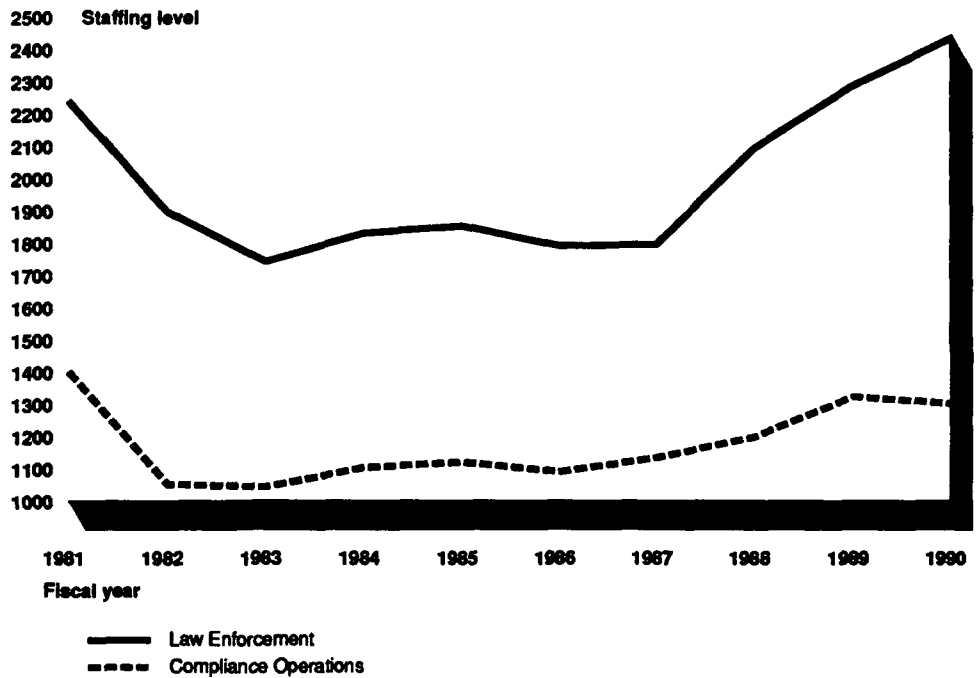
Figure 1.2: BATF's Staff Years for Fiscal Years 1977 Through 1991



Note: Amounts for fiscal years 1977 through 1990 are actual numbers; amount for fiscal year 1991 is authorized funding.  
Source: BATF data.

BATF assumed several significant new responsibilities in the 1980s—some mandated by Congress (such as the Anti-Arson Act of 1982, which gave BATF jurisdiction over certain arson cases) and others initiated by the agency itself (such as its participation in drug enforcement task forces). These new responsibilities, especially as they relate to narcotics and illegal weapons, have led to a growing emphasis on BATF's law enforcement mission. That growing emphasis can be seen in the staffing trends depicted in figure 1.3 and the funding and staffing comparisons shown in table 1.1.

**Figure 1.3: Comparison of Staffing Levels in BATF's Law Enforcement and Compliance Operations Functions, Fiscal Years 1981 Through 1990**



Source: BATF data.

**Table 1.1: Comparison of Funding and Staff Years for Compliance Operations and Law Enforcement**

Dollars in thousands

Fiscal year	Funding		Staff years	
	Compliance Operations	Law Enforcement	Compliance Operations	Law Enforcement
1981	\$49,758	\$99,813	1,399	2,238
1982	43,200	98,810	1,050	1,892
1983	46,950	99,047	1,041	1,739
1984	51,066	107,526	1,101	1,828
1985	54,465	116,785	1,118	1,850
1986	54,153	112,203	1,088	1,788
1987	60,771	132,979	1,132	1,793
1988	65,050	150,563	1,196	2,091
1989	70,829	166,387	1,321	2,285
1990	77,599	185,931	1,300	2,431
1991	85,191	220,519	1,417	2,649

Note: Funding and staff years are actual amounts for fiscal years 1981 through 1990 and authorized amounts for fiscal year 1991.



Another of BATF's new responsibilities is to collect special occupational taxes from businesses that sell alcohol, tobacco, and firearms. BATF assumed this responsibility from IRS in July 1987. Special occupational taxes generated \$130.1 million for the Treasury in fiscal year 1990.

We discussed the inefficiencies associated with special occupational taxes in our September 1990 report to the Joint Committee on Taxation.<sup>1</sup> In that report, we noted that special occupational taxes are relatively costly to administer, particularly when considering the small amount of revenue generated. The administration's fiscal year 1992 budget includes a proposal that would require wholesalers to ensure that their retail customers have paid special occupational taxes before doing business with them. This proposal, if enacted, would become effective October 1, 1991, and would shift some of the administrative burden of ensuring special occupational tax compliance from BATF to the alcohol industry.

---

## Objectives, Scope, and Methodology

Our objectives were to provide an historical overview of BATF's organization and responsibilities and to assess its current operations by evaluating how efficiently resources were used in BATF and the ability of support functions to meet growing demands. We focused on its two main organizational components, Compliance Operations and Law Enforcement. To help us achieve these objectives we obtained information from BATF, representatives from industries regulated by BATF, and officials from agencies that work with BATF on a day-to-day basis.

At BATF, we interviewed

- headquarters division chiefs and branch chiefs in the offices of Compliance Operations, Law Enforcement, and Administration;
- Compliance Operations and Law Enforcement field office officials in Atlanta; Baltimore; Falls Church, Va.; New York; and San Francisco;<sup>2</sup> and
- 10 new law enforcement agents and 11 new compliance inspectors (those with less than 2 years of experience) and 10 experienced agents

---

<sup>1</sup>Alcohol Excise Taxes: Simplifying Rates Can Enhance Economic and Administrative Efficiency (GAO/GGD-90-123, Sept. 27, 1990).

<sup>2</sup>These offices were selected for their convenience and accessibility to our staff as well as for their proximity to other BATF facilities visited, such as BATF's laboratories.

and 10 experienced inspectors (those with 2 or more years of experience).<sup>3</sup>

Our work at BATF included visits to the Firearms Tracing Center in Landover, Md.; the Firearms and Explosives Licensing Center in Atlanta; the Tax Processing Center in Cincinnati; and the three laboratories in Atlanta, San Francisco, and Rockville, Md.

To determine how BATF has grown and changed and to evaluate its current operations, we obtained and analyzed current and historical staffing, program, and budgetary data as well as data on program operations, recent and proposed changes in BATF's responsibilities, and the approaches used to set work priorities. We also obtained information about two BATF management information systems to determine what BATF officials used to manage the agency. We did not evaluate BATF's computer capacity or its automated systems.

We interviewed officials from other federal agencies that work with BATF, including the U.S. Customs Service, the Department of Justice, the Federal Bureau of Investigation, the Drug Enforcement Administration, and the Office of the U.S. Attorney to obtain their views about working with BATF. We also interviewed alcohol and firearms industry officials and interest groups and met with fire prevention officials who work with BATF on arson investigations to obtain their opinions on BATF's performance.

Also, we analyzed past GAO reports relating to BATF and assessed BATF's current performance in light of any relevant issues raised and recommendations made in those reports.<sup>4</sup>

We sought the views of responsible agency officials during the course of our work and incorporated those views where appropriate. The major point of contention was BATF's disagreement with our position on the need for accounting expertise on tax compliance inspections, as discussed in chapter 2.

---

<sup>3</sup>Those interviewed were selected on the basis of their availability during our field office visits. We divided our interviews between new and experienced staff to see if there were any issues, such as training or supervision, that were unique to one group.

<sup>4</sup>Alcohol and Tobacco Excise Taxes: Laws and Audits Need Modernizing (GAO/GGD-76-91, Apr. 8, 1977); Tax Administration: Compliance and Other Issues Associated With Occupational Taxes (GAO/GGD-86-49, June 5, 1986); and Tax Policy: Revenue Potential of Restoring Excise Taxes to Past Levels (GAO/GGD-89-52, May 9, 1989).

---

**Chapter 1**  
**Introduction**

---

We did our work from July 1989 to December 1990 in accordance with generally accepted government auditing standards.

# Compliance Operations Needs to Better Ensure That Its Resources Are Used Efficiently

Compliance Operations' responsibilities have increased steadily in recent years. This increase in responsibilities has led to, among other things, a reduction in certain tax compliance inspections. Because those kinds of reductions increase the risk of noncompliance, it is important that BATF do all it can to manage its growth through operational efficiency. We believe efficiency could be enhanced if Compliance Operations (1) focused more accounting expertise on its tax compliance examinations, (2) used standard work plans to guide its inspections, (3) more systematically targeted its alcohol beverage sampling program, and (4) better used management information to assess performance and determine future directions.

## Compliance Operations' Responsibilities Are Expanding

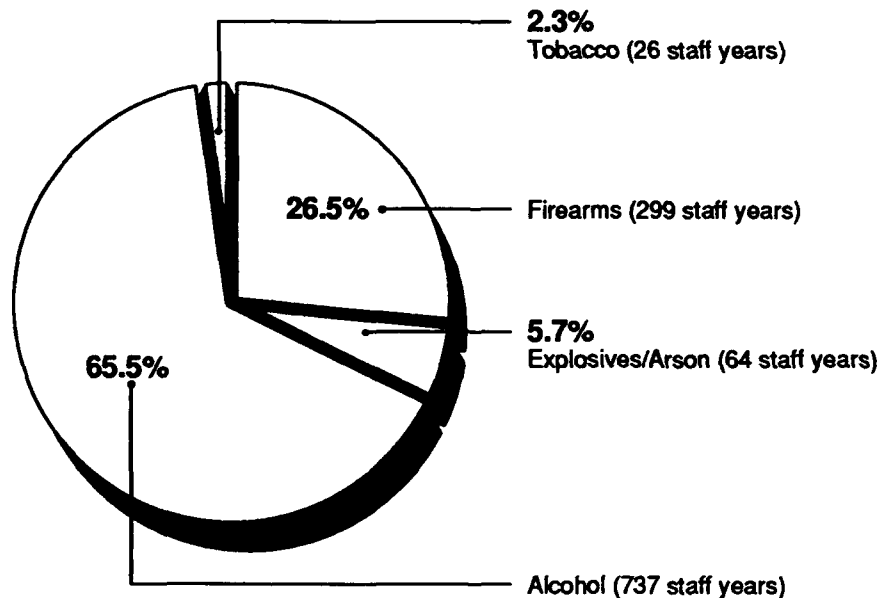
Compliance Operations has the following responsibilities:

- It collects excise taxes on alcohol and tobacco and collects special occupational taxes.
- It regulates the alcohol, tobacco, firearms, and explosives industries by inspecting alcohol and tobacco producers and wholesalers, tobacco export warehouses, firearms manufacturers and dealers, fireworks manufacturers, and explosives dealers and users.
- It approves labels for alcoholic beverages and tests these beverages for contaminants to protect the public safety.
- It screens applicants for permits and licenses to operate businesses such as distilleries, wineries, and breweries and alcoholic beverage wholesalers and importers; to produce or export tobacco products; to import, manufacture, and sell firearms; and to manufacture, sell, or use explosives in interstate commerce.

As of March 1991, Compliance Operations had 1,043 persons in its inspector job series, about 420 of whom were working in the field as inspectors. It also had 47 auditors, of whom 42 were in the field. Compliance Operations was authorized a total of 1,417 staff years in fiscal year 1991 (an increase of 31 percent since 1987 but still 6 percent lower than its 1981 authorized staffing level).<sup>1</sup> As shown in figure 2.1, the alcohol program accounted for about 65 percent of Compliance Operations' fiscal year 1990 direct staffing.

<sup>1</sup>These staff years include both direct and indirect staff years. All the staff years authorized to BATF are for the Offices of Compliance Operations and Law Enforcement. Direct staff years are those expended directly on Compliance Operations and Law Enforcement programs. Indirect staff years are used in support of Compliance Operations and Law Enforcement efforts, such as personnel and administrative services.

**Figure 2.1: Percentage of Staff Years  
Spent on Compliance Operations' Four  
Program Areas in Fiscal Year 1990**



Note: Compliance Operations had a total of 1,126 direct staff years in fiscal year 1990.  
Source: BATF data.

In fiscal year 1990, Compliance Operations collected \$5.8 billion in alcohol excise taxes and \$4.3 billion in tobacco excise taxes. During that same year, Compliance Operations did

- 6,574 alcohol inspections, which involved such tasks as investigating unfair trade practices by industry members and determining if alcohol producers, importers, and retailers were maintaining proper records and paying the correct amount of excise taxes;
- 11,977 firearms inspections to support Law Enforcement efforts and to keep prohibited persons from dealing in or obtaining firearms, which involved such tasks as checking dealers' records and inventories;
- 4,792 explosives inspections, which involved such tasks as ensuring that explosives were stored safely; and
- 253 tobacco inspections, which involved verifying production and export records.

During the past 5 years, Compliance Operations has assumed several new responsibilities, including (1) collecting special occupational taxes on businesses that sell alcohol, tobacco, and firearms as directed by Congress, which BATF assumed from the Internal Revenue Service in July

---

1987; (2) testing alcoholic beverages in response to consumer complaints, which BATF assumed from the Food and Drug Administration (FDA) in November 1987; (3) enforcing collections of certain unpaid alcohol, tobacco, and firearms taxes,<sup>2</sup> which BATF assumed from IRS in October 1990; and (4) collecting excise taxes on firearms and ammunition, which BATF assumed from IRS in January 1991.<sup>3</sup>

---

---

### **Compliance Operations' Growing Workload Could Increase the Risk of Noncompliance With Excise Tax Laws**

Because of its many responsibilities, Compliance Operations must make trade-offs among competing priorities in determining how best to use its resources. One result of these trade-offs in recent years was a decrease in the number of tax compliance inspections of alcohol producers. That decrease, combined with the fact that some inspections are being done by inspectors with little accounting expertise, raises questions about the extent to which excise tax revenues are being put at risk. BATF, however, does not have the kind of data needed to determine whether tax compliance has been adversely affected by the reduction in inspections or the limited accounting expertise. Such information is important if BATF is to make informed decisions on resource allocations.

---

### **Shifting Priorities Have Reduced the Number of Alcohol Tax Compliance Inspections**

Compliance Operations' growing workload, whether caused by the assumption of new duties, like special occupational taxes, or an increased emphasis on existing duties, like assisting Law Enforcement, has caused shifts in its work priorities. Table 2.1 shows how the makeup of Compliance Operations' inspection workload has changed in response to those shifting priorities.

---

<sup>2</sup>Enforcing collections includes such activities as filing levies and liens and seizing and selling taxpayer property.

<sup>3</sup>IRS collected \$134 million in firearms and ammunition excise taxes in fiscal year 1989.

**Chapter 2**  
**Compliance Operations Needs to Better**  
**Ensure That Its Resources Are**  
**Used Efficiently**

**Table 2.1: Compliance Operations Inspections**

Type of inspection	Percent change in number of inspections		Staff hours spent on inspections		
	Fiscal years		Fiscal years		
	1988-1989	1989-1990	1988	1989	1990
<b>Alcohol</b>					
Tax compliance inspections to determine that producers of alcoholic beverages are properly maintaining records and paying the correct amount of excise tax	(37)	4	94,264	61,018	67,140
Special occupational tax inspections to identify taxpayers, verify their liability, and collect special occupational taxes	412	(80)	12,775	63,097	17,605
Product and market integrity inspections to check for fraudulent labels and contaminated products and to ensure compliance with regulations such as health warning label requirements	(22)	70	32,980	34,874	51,386
Qualification inspections to investigate applications for permits and determine possible hidden ownership of facilities	(5)	(12)	49,060	50,112	44,454
Trade practice inspections to deter activities that can lead to unfair advantage of one industry member over another	1	41	52,511	50,234	47,589
<b>Tobacco</b>					
Tax compliance inspections to determine that producers and exporters are properly maintaining required records and paying the correct amount of excise tax	(17)	13	10,388	8,600	14,071
Qualification inspections to investigate applications for licenses to produce or export tobacco	(22)	7	1,763	1,221	1,008
<b>Firearms</b>					
Compliance inspections to examine firearms records and inventory to ensure that firearms are traceable and are not being diverted for illegal use	(24)	21	78,039	84,869	115,905

(continued)

**Chapter 2**  
**Compliance Operations Needs to Better**  
**Ensure That Its Resources Are**  
**Used Efficiently**

Type of inspection	Percent change in number of inspections		Staff hours spent on inspections		
	Fiscal years		Fiscal years		
	1988-1989	1989-1990	1988	1989	1990
<b>Firearms (cont'd)</b>					
Qualification inspections to investigate applications for federal firearms licenses to keep felons and others likely to commit violations out of the industry	73	34	8,593	14,666	22,716
<b>Explosives</b>					
Compliance inspections to check storage facilities, records, and inventories to ensure that the explosives licensee is in compliance with federal laws	(7)	19	29,710	28,688	39,172
Arson inspections to assist Law Enforcement investigations of arson-for-profit cases by analyzing financial records to determine if a motive exists	33	8	25,428	24,882	29,133
Fireworks inspections to examine records, explosive magazine construction, and inventories to ensure public safety	(19)	31	2,956	2,779	4,302

Source: BATF's 1988 Operating Plan Report and 1989 and 1990 Results Reports.

One example of a shift in priorities occurred after BATF assumed responsibility for collecting special occupational taxes. Because of information it had that indicated a high level of noncompliance with those taxes (about 40 percent), BATF implemented an enhanced enforcement effort. While increasing its special occupational tax inspections, BATF reduced the number of tax compliance inspections at alcohol beverage producing plants. As shown in table 2.1, there was a 37 percent decrease in those inspections between fiscal years 1988 and 1989 with only a small recoupment in fiscal year 1990.

As BATF continues to assume more compliance responsibilities, such as starting to collect firearms and ammunition excise taxes in fiscal year 1991, the need to balance compliance priorities and make the necessary tradeoffs will become even more critical. In balancing those priorities, it is important that BATF do all it can to keep the number of tax compliance inspections from falling to a point that puts excise tax revenues at risk.



---

**Increased Accounting  
Expertise Could Lead to  
More Effective Tax  
Inspections and Help  
Reduce the Risk of  
Noncompliance**

BATF collected about \$10 billion in alcohol and tobacco excise taxes in fiscal year 1990. Now that BATF is responsible for collecting the excise taxes on firearms and ammunition, and with the increase in alcohol and tobacco tax rates enacted as part of the Omnibus Budget Reconciliation Act of 1990 (see table I.1), alcohol and tobacco excise tax revenues should increase. One of Compliance Operations' primary responsibilities is to protect and collect excise tax revenues. To enhance its effectiveness in that regard and help reduce the risk of noncompliance, Compliance Operations needs to have more accounting expertise available to focus on tax inspections.

Compliance Operations has a small cadre of auditors in the field (42 compared to about 420 field inspectors). Auditors were first hired in 1979 to work on tax compliance inspections. Their responsibilities changed in 1981, however, when Compliance Operations began helping Law Enforcement investigate the financial aspects of arson-for-profit cases. Those cases are complex and require both financial and criminal investigative skills to develop evidence that can establish a motive for burning a business. BATF officials and fire prevention association representatives we spoke with believe that auditors provide a valuable resource in developing these cases. Arson-for-profit investigations are included in BATF's statistics, which showed that BATF saved about \$29 million in fraudulent insurance claims in fiscal year 1990 and recommended 355 defendants for prosecution.

Because auditors now spend about 90 to 100 percent of their time on arson cases, alcohol and tobacco tax compliance inspections are done by field inspectors, who are not required to have any accounting expertise. Considering the nature of a tax compliance inspection, such expertise can be important.

To determine if all taxes due have been paid during a compliance inspection, BATF inspectors are required to review production quantity records to ensure that the exact number of gallons produced are accounted for. These operational records should then be compared to the firm's financial and accounting records that show such things as the prices of raw materials and the costs associated with processing, packaging, and selling the beverage. According to BATF, most taxpayers use a cost accounting system to track the value of goods as they flow through the process.

There are certain aspects of tax compliance inspections that would, in our opinion, benefit from accounting expertise. Those aspects include

such things as verifying transfers between inventory accounts, converting the dollar value of transfers to quantities in order to verify monthly records and determine if the correct amount of tax was paid, and determining the adequacy of internal control systems. We came to a similar conclusion in our 1977 report on alcohol and tobacco excise taxes,<sup>4</sup> in which we argued that it is logical to expect that having excise tax auditors examine financial books of account should improve the effectiveness of BATF's inspection program.

The views of officials from a major brewery lend support to our conclusion. One official told us that auditors generally do a more competent job in tying the excise taxes paid to the corporate accounting books. Accounting officials from this brewery told us that they had to explain accounting terms, such as cost figures, finished goods, and inventory systems to the BATF inspectors doing tax compliance inspections.

According to BATF's Audit Branch Chief, firearms and ammunition excise tax inspections, for which BATF recently assumed responsibility, will require even more accounting expertise than alcohol inspections because these taxes are based on a percentage of the initial sales price (as compared to alcohol excise taxes, which are based on unit amounts such as the number of gallons produced and sold).<sup>5</sup> Because the amount of firearms excise tax due is dependent on the price of the weapon, BATF, in determining the correct amount of tax, must ensure that the sales price reflects the true value of the goods and must be alert to schemes that are intended to defraud the government of tax revenues to which it is entitled. For example, a manufacturer could set up a "dummy" company and sell firearms to it at a deflated price in order to evade excise taxes. The dummy company could then sell the firearms for the actual market price. BATF must ensure that it has the expertise necessary to analyze a company's financial records to detect such schemes.

Studies by BATF's Inspection Division, BATF's Internal Audit Division, and a BATF task force all recommended that inspectors have training in accounting and auditing techniques. The general consensus among the studies was that 12 semester hours of college level accounting is needed. The current Chief of Compliance Operation's Audit Branch also expressed the belief that inspectors should have at least 12 credit hours

---

<sup>4</sup>Alcohol and Tobacco Excise Taxes: Laws and Audits Need Modernizing (GAO/GGD-76-91, Apr. 8, 1977).

<sup>5</sup>Pistols and revolvers are taxed at 10 percent of the manufacturer's price, and ammunition and other firearms are taxed at 11 percent.

of accounting to do compliance inspections. In discussing the skills needed to carry out BATF's revenue protection responsibilities, a 1984 consultant's report recommended several mandatory college level courses for inspectors—including accounting, statistical sampling, computers, and auditing—that would amount to over 20 credit hours. The consultant also recommended that compliance inspectors specialize in doing tax compliance work to enhance their expertise.

BATF recognizes the need for accounting expertise and provides some training in auditing, accounting, and internal controls as part of the basic training it gives all inspectors. BATF also offers an advanced examination techniques course that is intended to train inspectors on how to bridge operational and financial records. In addition, BATF officials said they encourage inspectors to take college level accounting courses for which the agency will pay. As of March 1991, according to BATF's data, 80 percent of the 420 field inspectors had taken at least 3 credits of college level accounting, but only 29 percent had taken 12 or more credits. BATF is considering requiring a minimum of 6 credit hours of college level accounting before an inspector could achieve the journeyman (GS-11) level.

The use of more auditors on compliance inspections has also been discussed within BATF. At a meeting in November 1989, field audit managers discussed a proposal to devote up to 25 percent of BATF's field auditors' workload to Compliance Operations. No such policy had been adopted as of mid-March 1991 and field auditors continued to spend almost all of their time working on arson-for-profit investigations. The Chief of the Audit Branch explained that such a policy would require increasing the number of auditors.

While recognizing that there is some benefit to having accounting expertise, BATF officials told us that they have seen little evidence that the use of auditors would have an appreciable effect on inspection results. In fiscal year 1990, inspectors identified \$1.8 million in additional alcohol excise taxes after examining returns reporting excise tax liabilities of \$841 million—a yield of 0.2 percent of the excise taxes examined. BATF does not have comparative data showing the results achieved when auditors were doing the inspections, but BATF officials said that the results were not appreciably different.

BATF does not periodically study the extent of compliance among businesses subject to the excise taxes it collects. Nevertheless, BATF officials expressed the belief that alcohol and tobacco excise tax compliance is

very high—about 99 percent. They base their opinion on their knowledge of the regulated industries and their inspection results. We cannot be sure, however, that inspection results are a valid measure of compliance or to what extent they might be enhanced by increasing the level of accounting expertise.

Further, enhancing the quality of inspections has value that goes beyond the immediate additional revenue assessed in such inspections. Improving the inspections should enhance their deterrent effect on noncompliant behavior.

In the absence of more compelling information on excise tax compliance and considering the nature of compliance inspections, we believe that BATF could better ensure that taxpayers are meeting their excise tax responsibilities if it had more accounting expertise available to focus on those inspections. One way to achieve that end would be to require inspectors to have a certain number of college level accounting credits, as BATF is considering. Information we obtained during our study, however, indicated that 12 credit hours might be more appropriate than the 6 hours being considered by BATF. BATF could also acquire additional accounting expertise by increasing the number of auditors on its staff. That increase could be achieved within BATF's authorized staffing levels and without adversely affecting its arson-for-profit investigations by revising, through the filling of attrition vacancies, Compliance Operations' current mix of auditors and inspectors. Although inspectors could still be responsible for doing the bulk of the inspections, a group of auditors devoted solely to the Office of Compliance Operations would help improve the availability of auditors to provide guidance, training, quality review, and troubleshooting for compliance inspections.

---

## **Standard Work Plans Could Help Ensure Consistent Compliance Inspections**

Compliance Operations could more efficiently use its inspection resources if it developed standard work plans. Detailed work plans are developed for each of the compliance inspections done every year (23,596 in fiscal year 1990). That approach may result in inconsistent inspections and does not ensure adherence to generally accepted government auditing standards. Those standards include the need to test compliance with applicable laws and regulations; obtain sufficient, competent, and relevant evidence; and provide reasonable assurance that illegal acts are detected.

To illustrate how work plans can vary, we compared the plans for two winery tax compliance inspections obtained from two of BATF's area

offices. Both plans called for verifying that the correct tax was paid for wine leaving the winery, but they provided vastly different ways to do this. One plan simply said to verify taxable removals and use statistical sampling if practical. The other plan listed seven audit steps to address the same issue, such as evaluating internal controls and testing the accuracy of removal records, including cross-checking several different records to assure consistency and completeness. The second plan more clearly and thoroughly defined what should be done in the inspection.

The use of standard work plans would help ensure that (1) the minimum work needed is completed at each inspection, (2) the work tasks are clearly set forth, and (3) the inspection is done on the basis of current policy. Overall, use of standard work plans would better ensure a uniform level of inspection coverage in the alcohol, tobacco, firearms, and explosives programs. It would also better ensure more efficient use of Compliance Operations resources because inspectors could add steps to a standard plan when needed rather than developing an entire work plan for each inspection. Standard work plans would also assist those who have little or no accounting background in doing tax compliance inspections by setting forth steps to follow in doing the work.

BATF has long recognized the need for standardized work plans. It acknowledged such a need in 1984 when responding to a consultant's study of BATF audit and inspection activities. During this review, BATF officials agreed that standard work plans would be helpful and said that an auditor was developing one for use in inspecting breweries.

---

## **BATF's Alcohol Sampling Program Could Be Strengthened**

Compliance Operations could more efficiently use its resources in testing samples of alcoholic beverages for contaminants if it analyzed comprehensive data from previous tests to target its sampling. BATF tests alcoholic beverages sold in the United States to ensure that they do not contain unauthorized substances or contaminants and that they are properly classified for tax purposes.<sup>6</sup> In recent years, for example, BATF has tested alcoholic beverages to ensure that they did not contain harmful substances such as diethylene glycol, an ingredient in anti-freeze. Compliance Operations has also uncovered other violations, including smuggling activities, tax evasion, and the use of fraudulent labels.

---

<sup>6</sup>For example, wines are taxed at different rates depending on the level of alcohol present in the beverage. Through laboratory tests, BATF can determine the level of alcohol and thus the proper tax classification.

A product cannot enter the marketplace until BATF has approved the product's label. That process sometimes involves a test of the product. BATF must also review and approve any changes made to a label before the revised label can be used. A label must accurately portray the beverage's contents and comply with regulations, such as those requiring inclusion of a health warning.<sup>7</sup> During fiscal year 1990, BATF had about 550,000 approved labels on file for products on the market. BATF reviews a total of about 55,000 new and revised labels each year.

Compliance Operations also tests alcohol products once they are on the market. In fiscal year 1990, it tested 3,308 samples out of a total of about 550,000 alcoholic beverages with approved labels on the market. Compliance Operations obtains products for testing in three ways: (1) inspectors sometimes take samples of beverages produced at the facilities they inspect and send them to a BATF laboratory for analysis; (2) products are forwarded to BATF's national laboratory in response to consumer complaints about problems they experienced with alcoholic beverages; and (3) as part of Compliance Operations' market basket sampling program, samples are purchased from retailers' shelves in several cities across the country and sent to a BATF laboratory for testing.

In fiscal year 1990, BATF sampled and tested 387 products in 6 cities under the market basket sampling program. This was a 12-percent decrease from its fiscal year 1989 level of 439 products in 8 cities. BATF plans to sample and test about 500 products in 5 cities in fiscal year 1991. The program primarily focuses on imported products because BATF relies on its routine inspections of alcohol producers to obtain samples of the domestic products it tests.

Compliance Operations develops its sampling plan after soliciting input from knowledgeable persons, including chemists in BATF laboratories where alcohol products are tested. It also reviews laboratory test results. Although this approach identifies some problem areas for sampling and testing, a more systematic analysis would use comprehensive data from previous tests done over a period of several years, including tests done in conjunction with the market basket sampling program, routine inspections, and consumer complaints.

---

<sup>7</sup>The Alcoholic Beverage Labeling Act of 1988 requires a health warning label on all containers of alcoholic beverages bottled on or after November 18, 1989. As the act prescribes, the label states "GOVERNMENT WARNING: (1) According to the Surgeon General, women should not drink alcoholic beverages during pregnancy because of the risk of birth defects. (2) Consumption of alcoholic beverages impairs your ability to drive a car or operate machinery, and may cause health problems."

By developing a management information system that includes previous years' test results as well as information BATF obtains from other sources, like foreign countries, BATF could create a matrix showing factors associated with each product, such as the type of beverage, its origin, the type of retailer selling the product, and the number sampled. By analyzing several years of historical data on this matrix, BATF could specifically identify patterns of noncompliance, determine the percentage of products where the problems are occurring, and appropriately focus its resources. This would help BATF determine where it may be missing or undersampling products.

Results of previous tests are maintained on BATF's laboratory database. According to BATF officials, Compliance Operations cannot access the database because it is maintained on two stand-alone systems at the laboratories in Rockville, Md., and San Francisco. BATF plans to connect these two systems via a network in fiscal year 1991. Compliance Operations and laboratory officials have asked BATF's Information Systems Management Division to develop the necessary software to permit Compliance Operations direct access to the laboratory database once this network is established.

---

## **Better Use of Management Information Systems Could Help Compliance Operations Manage Its Growing Workload**

We discussed earlier in this report how BATF's ability to make informed decisions about trade-offs would be enhanced if it had periodically updated data on tax compliance levels. Such data is only part of the kind of overall performance measurement system that would help Compliance Operations manage its growth.

Beginning in fiscal year 1989, Compliance Operations developed a system to report the results of its inspections. This system generates monthly reports containing information on the number of planned and completed inspections; planned versus actual time charges; and inspection results (such as tax payments reviewed, violations cited, and additional taxes assessed). According to BATF officials, regional management uses these reports to measure the results of work done in the area offices. Although these reports contain some of the information needed to measure performance, there are steps BATF could take to enhance the system and make it a more useful management tool.

The reports show how many of each type of inspection were done (such as a tax compliance inspection of a large brewery or a product integrity inspection). Because some facilities are inspected more than once a year, however, the number of inspections does not equal the total number of

different facilities inspected. Without knowing how many specific facilities were inspected, Compliance Operations cannot calculate inspection coverage—the percentage of total facilities that were inspected in a particular year. Inspection coverage is important if one assumes, as we do, that compliance is enhanced not simply by the number of inspections done but by the number of different facilities inspected. Information on the number of facilities inspected and the number of inspections done at a particular facility is available in Compliance Operations' area offices. BATF plans to incorporate area office information into a headquarters database during fiscal year 1991. The database will allow headquarters to more readily compare inspection results and to identify variations among regions in such areas as types of inspections.

Compliance Operations' monthly reports also contain data on the total amount of time inspectors spent on each type of inspection. If BATF had a timeliness standard for each inspection type, data could be included in its reports to show both the average inspection time for each type, and the number of inspections that exceeded BATF's timeliness standard. Incorporating this timeliness information into Compliance Operations' reports could help BATF monitor current performance and long-term trends and could be useful in determining future performance objectives.

Compliance Operations' reports include some information on tax adjustments that could be used to assess the quality of completed inspections. Inspection quality, we believe, could also be assessed through a peer review or a determination of violations and fines identified. Such data on the quality of BATF's performance could improve the overall assessment of inspections.

Increasing the use of a combination of several measures of efficiency, timeliness, and quality could, we believe, give BATF a benchmark to use in evaluating its overall inspection performance. Once BATF's reports include all of the relevant data, BATF can establish standards to help hold managers accountable for their performances. Performance data would also be useful for Congress and the executive branch in examining inspection trends and executing their oversight responsibilities.

---

## **Conclusions**

Compliance Operations' management, faced with increasing responsibilities and changing agency priorities, has had to make difficult decisions on how to best use its staff. One result of that process has been an overall reduction in alcohol tax compliance inspections since 1988. As



BATF continues to assume additional compliance responsibilities, the need to balance priorities and allocate resources efficiently will increase. In balancing priorities and allocating resources, it is important that BATF do all it can to ensure that the number of tax compliance inspections does not fall to a point that puts excise tax revenues at risk.

In addition to the decrease in the number of tax compliance inspections, persons with little or no accounting background are doing these inspections. Focusing more accounting expertise on tax compliance inspections could, in our opinion, help decrease the risk of noncompliance. We understand the value of using auditors in arson-for-profit cases and realize that it may not be possible to divert auditors from those cases. There are alternatives, however. BATF is already considering one—requiring inspectors to have 6 college level accounting credits before they can be promoted to the journeyman level. We believe that 12 hours may be more appropriate. As another alternative, BATF should consider revising its staffing mix by hiring more auditors to fill positions vacated by retiring or resigning inspectors. Hiring more auditors in this way would enable Compliance Operations to maintain its level of effort on arson cases while enhancing the accounting expertise applied to tax compliance inspections. Although inspectors could still be responsible for doing most of the inspections, a small group of auditors dedicated to the compliance function could help by providing guidance, training, and quality review and by being available to assist on inspections as needed.

Another action Compliance Operations could take to improve efficiency would be to develop standard work plans. Besides ensuring consistency, standard plans would preclude the need to expend staff time developing a new plan for each inspection. BATF has long recognized the benefits of developing standard work plans but has been slow to develop them.

Additional inefficiencies may result, in our opinion, from the method Compliance Operations uses to select the alcoholic products to be included in its market basket sample. BATF needs to resolve the computer system difficulties that have impeded the use of previous laboratory test results in identifying products to be sampled. Using a matrix to analyze previous years' test results would allow BATF to identify patterns of noncompliance and problem areas to help target its sampling efforts and would allow BATF to maximize its coverage within the staffing level allocated for this effort.

Compliance Operations' ability to handle its growing and diverse workload and the associated trade-offs in priorities could be enhanced if its

managers and supervisors had better management data with which to assess how well they are doing their jobs and to provide a basis for determining future directions. Compliance Operations' information systems could be enhanced by including additional relevant data on the efficiency, quality, and timeliness of Compliance Operations' major activities. This, in conjunction with the use of performance standards, would help management better assess overall performance and increase managers' accountability. Data on inspection performance trends would also enhance congressional and executive branch oversight.

It would also be useful for BATF to periodically collect data assessing the extent of noncompliance among businesses subject to the excise taxes it collects. This information would enable BATF to understand the nature and extent of any noncompliance, better target its compliance resources, and provide a measure of the effectiveness of its compliance programs.

---

## **Recommendations to the Director of BATF**

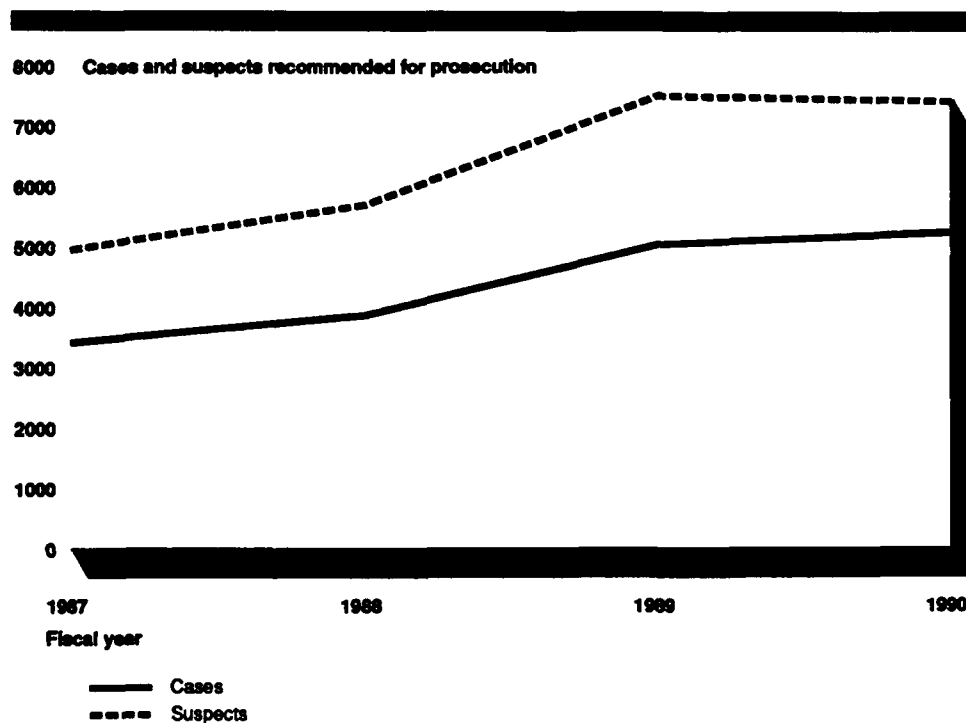
We recommend that the Director of BATF ensure that BATF takes the following actions:

- Increase the availability of accounting expertise for use on tax compliance inspections. Options BATF might consider include requiring that inspectors have at least 12 hours of college level accounting credits before being eligible for promotion to journeyman level or changing its inspector/auditor staffing mix by hiring auditors to fill vacated inspector positions.
- Develop a series of standard work plans for the various types of compliance inspections.
- Correct the problems impeding the use of laboratory data in the market basket sampling program and, once this database is available, develop a management information system to target products for inclusion in the test samples.
- Develop a more comprehensive performance measurement system for Compliance Operations that includes measures of quality, timeliness, and efficiency.
- Periodically measure the extent of compliance with the excise taxes for which it is responsible.

# Growth in the Office of Law Enforcement Has Increased Demands on Support Functions

The Office of Law Enforcement is responsible for investigating criminal violations of federal firearms and explosives laws. From fiscal year 1987 through 1990, the number of Law Enforcement staff years increased 36 percent (from 1,793 to 2,431 staff years), and the total number of cases referred for prosecution increased 53 percent. Of the 1,774 special agents on board as of July 1, 1990, 630 (36 percent) were hired since fiscal year 1987. Figure 3.1 shows how the number of cases and the number of suspects referred for prosecution have changed since fiscal year 1987.

**Figure 3.1: Law Enforcement Cases and Suspects Recommended for Prosecution, Fiscal Years 1987 Through 1990**



Source: BATF data.

The growth of the Office of Law Enforcement reflects its increasing importance within BATF as its role in the war on drugs and in combating violent crime expands. The relatively large number of new agents coming on board has begun to generate cases, which, in turn, has increased the workload of BATF's support functions—an increase that is exacerbated by the demands associated with BATF's assistance to other law enforcement agencies.

We identified two areas where problems exist due to an increasing workload. These areas involve backlogs in (1) microfilming records that are used to trace firearms used in crimes, primarily at the request of state and local law enforcement agencies, and (2) classifying firearms evidence for court cases.

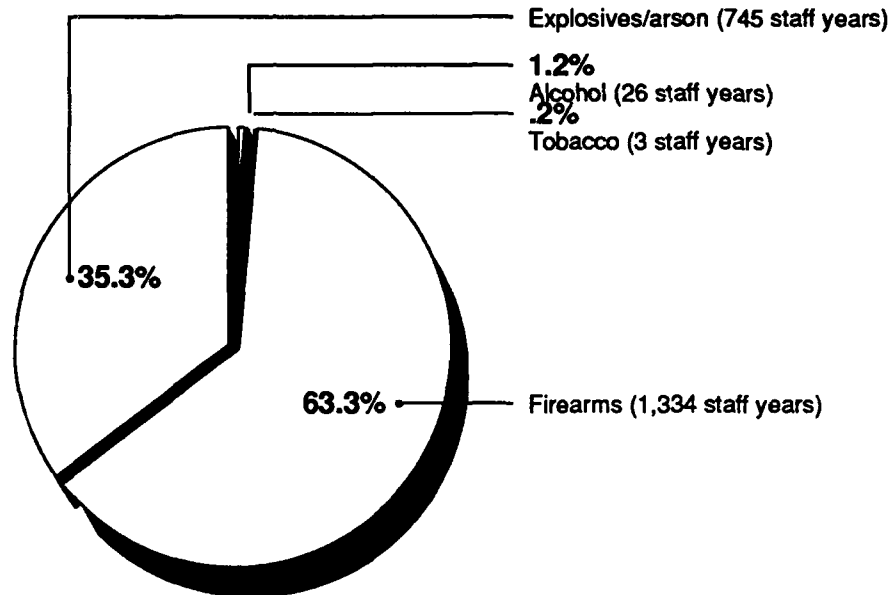
As Law Enforcement's efforts continue to expand, it becomes increasingly important that its resources are used efficiently. Although BATF's Law Enforcement Management Information System (LEMIS) contains some data that can help in that regard, better performance data for the field offices in the form of several measures of efficiency, timeliness, and quality would help Law Enforcement better assess its overall performance.

---

## **Law Enforcement Has Spent Most of Its Time on Firearms and Explosives Cases**

As discussed in detail in appendix II, Law Enforcement's 22 district offices set their priorities through a process that is intended to target crime problems and criminal organizations of concern to the community but beyond the capability of state and local law enforcement agencies to contain. For fiscal year 1990, most of the 22 districts identified narcotics and violent crime as their first two priorities. Consistent with these priorities, as shown in figure 3.2, Law Enforcement primarily concentrates on firearms and explosives cases while doing little work on alcohol and tobacco cases. In Law Enforcement's fiscal year 1990 firearms program, 66 percent of the suspects BATF recommended for prosecution had prior arrest records (including 45 percent who had a previous felony conviction), and 46 percent were narcotics traffickers.

**Figure 3.2: Percentage of Staff Years Spent on Law Enforcement's Four Program Areas in Fiscal Year 1990**



Note: Law Enforcement had a total of 2,108 direct staff years in fiscal year 1990.  
Source: BATF data.

The firearms program is BATF's largest. As part of the firearms program, Law Enforcement agents investigate such things as interstate and international firearms trafficking, large-scale thefts of firearms, narcotics trafficking, violent crimes, street gangs, and organized crime. BATF's role in the war on drugs was made more important by the mandatory sentencing provisions contained in the Comprehensive Crime Control Act of 1984, as amended (18 U.S.C. 924 (c) and (e)). These provisions stipulate minimum sentences of 5 years to life for criminals convicted of possessing a firearm while committing violent or drug-related crimes, making BATF's firearms expertise crucial in developing cases involving these provisions.

The number of staff years devoted directly to the firearms program has increased 78 percent since fiscal year 1986 (from 750 staff years in fiscal year 1986 to 1,334 staff years in fiscal year 1990). As a result of its firearms investigations, BATF referred 4,753 cases (involving about 6,550 defendants) for prosecution in fiscal year 1990—about 91 percent of all cases and 89 percent of all suspects BATF recommended for prosecution during that year.

Law Enforcement's next largest program is the explosives program, which involves investigating domestic and international terrorists and thefts of explosives and helping local law enforcement agencies investigate arsons involving interstate commerce. BATF is selective in determining which arson cases to investigate because it does not have the manpower to investigate all arsons that involve violations of federal statutes. BATF agents consider a combination of factors when deciding whether to take a case, including the amount of commercial or industrial property damage, the number of deaths or injuries involved, and the local jurisdiction's capabilities and resources.

Arson and bombing investigations are generally more complex and time consuming than firearms investigations. To help investigate arsons and bombings, BATF has four National Response Teams, which consist of experts with sophisticated equipment who can be at the scene of a bombing or arson anywhere in the country within 24 hours. BATF also (1) has arson task forces in 15 cities throughout the United States consisting of agents assigned primarily to assist local governments in investigating suspicious fires or bombings and (2) traces explosives for federal, state, and local law enforcement agencies.

Staffing levels for the explosives program have also grown over the years, increasing 12 percent since fiscal year 1986 (from 663 staff years in fiscal year 1986 to 745 staff years in fiscal year 1990). As a result of its investigations, BATF referred about 355 arson defendants and 434 explosives suspects for prosecution in fiscal year 1990.

The other two Law Enforcement program areas, which involve alcohol and tobacco investigations, have declined significantly since fiscal year 1981. During fiscal year 1990, BATF initiated 12 alcohol related investigations (down from 181 in fiscal year 1981) and recommended 18 defendants for prosecution. In the tobacco program, contraband cigarette enforcement—which was once handled by BATF—is now primarily considered a state problem, with some support provided by BATF. For example, BATF agents coordinate intelligence information and provide investigative training for the states. In fiscal year 1990, BATF started eight tobacco program investigations and recommended five suspects for prosecution.

Besides investigating cases, Law Enforcement

- processes requests by felons to have their right to bear arms restored;

- maintains a reference collection of firearms for use in training, undercover operations, and evidence;
- provides technical expertise for BATF and other agencies on the mechanics of firearms (including assistance in examining and classifying evidence for firearms cases);
- works with Compliance Operations to determine whether guns meet the qualifications required for importation into the United States;
- works with other law enforcement agencies, such as on the Department of Justice's Organized Crime Drug Enforcement Task Forces; and
- supports other law enforcement agencies by doing such things as (1) providing training on how to investigate arson-for-profit cases, determine the cause of fires and explosions, and use investigative techniques and (2) tracing the ownership of firearms and explosives at the request of state and local governments.

---

### **Law Enforcement's Increasing Workload Has Resulted in Backlogs**

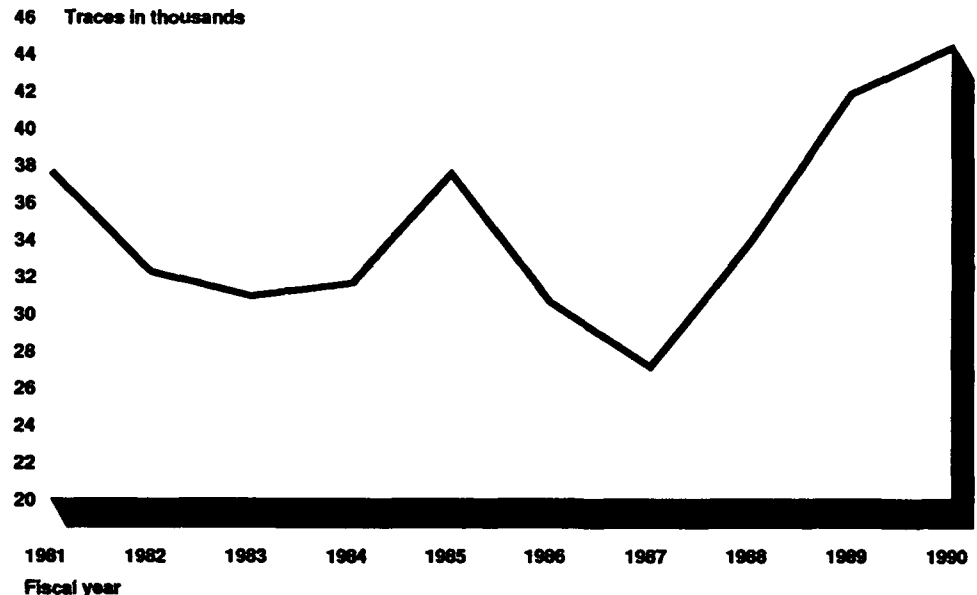
The growth in Law Enforcement's firearms program has generated two backlogs that can affect BATF's timeliness and/or effectiveness. These backlogs involve (1) the microfilming of records used to trace the ownership of firearms and (2) the classification of firearms evidence.

---

### **Backlog in Microfilming Firearms Transaction Records**

The Firearms Tracing Center in Landover, Md., has a backlog in microfilming records that are used to trace the ownership of conventional firearms used in crimes. These traces (which BATF pays for) provide investigative leads for BATF and other federal, state, local, and international law enforcement agencies. As shown in figure 3.3, the number of firearms traces has increased significantly since fiscal year 1987. Of the 44,272 traces done in fiscal year 1990, about 80 percent were for state and local agencies.

Figure 3.3: Number of Firearms Traced,  
Fiscal Years 1981 Through 1990



Source: BATF data.

To trace the ownership of a firearm, Firearms Tracing Center employees (1) contact currently operating manufacturers, wholesalers, and dealers by telephone and/or (2) research records maintained in BATF's Out-of-Business Records Section for companies that are no longer operating. The Out-of-Business Records Section, which is collocated with the Firearms Tracing Center, contains records from companies no longer in operation. Firms that go out of business are required to send all of their firearms transactions records to BATF, thus enabling Law Enforcement to continue to use these records to trace firearms.

Cyclical changes in the economic climate may increase the number of records that the Out-of-Business Records Section receives. Several businesses have ceased operations recently, resulting in a backlog of 28 million documents to be microfilmed as of June 1990.

The Branch Chief of the Firearms Tracing Center said that the records maintained by the Out-of-Business Records Section are used in about 25 percent of the firearms traces. Generally, all urgent traces can be done within 8 hours, but routine traces take from 5 to 7 working days. The Chief of Law Enforcement's Firearms Division said that the time it takes to do routine traces has increased over the last few years—from 3 days to 5 to 7 days—as the volume of requests has increased.



Tracing a firearm is time consuming when using records contained in the Out-of-Business Records Section because many of the records (from over 80,000 manufacturers, retailers, and distributors) have not been micro-filmed. Thus, BATF staff have to sort through boxes of records stored in the section's warehouse to locate needed information. Because these traces are needed to help law enforcement agencies identify criminals and are used by the U.S. Attorneys Office to prepare indictments, it is important that the traces be done quickly.

Besides the impact on the Firearms Tracing Center's timeliness, the presence of this backlog has other disadvantages. Storing the records requires additional space (BATF currently has 22,000 square feet of warehouse space); additional staff are needed to maintain and research the records (there are 31 staff in the Out-of-Business Records Section compared with 20 staff in the Firearms Tracing Center); and there is a risk of deterioration of the records as they await microfilming. BATF has estimated that it could take up to 20 years to microfilm these records at the current rate; the backlog could worsen as more businesses close.

BATF recognizes the need to reduce this backlog and has hired a contractor to help with the microfilming. BATF estimated that \$3.5 million would be needed during fiscal years 1992 through 1996 to eliminate the backlog and had proposed including \$1 million for that effort in its fiscal year 1992 budget request. That proposal was denied by the Office of Management and Budget.

---

## **Backlog in Classifying Firearms Evidence**

BATF officials told us that during fiscal year 1990 there was a constant backlog in classifying firearms evidence because of the steadily increasing workload generated by BATF's own investigations and those done jointly with other law enforcement agencies. BATF also classifies firearms evidence for other agencies, such as the Department of Defense, upon special request and classifies weapons before they can be imported into the United States.<sup>1</sup>

Classifying firearms evidence involves a technical examination of the mechanics of a firearm or silencer. BATF's technical experts examine the components of the weapon and determine how they function. For example, a sporting weapon modified into a machine gun would be an

---

<sup>1</sup>Guns must meet certain criteria to be imported. For example, they must be designed for sporting purposes and possess safety features. If the weapon is ineligible, BATF provides written feedback on what changes could make the weapon importable.

illegal weapon. One way to test the weapon would be to verify that it fires as a machine gun. However, if it is unsafe to fire, the experts could still certify that the gun functions as a machine gun via their examination and expertise.

Classifying evidence also can be used to help show if the firearm or any of its components has been moved across state lines, which can affect a case. Under Title I of the Gun Control Act, for example, it is unlawful for convicted felons to ship, transport or possess any firearm or ammunition that was shipped in interstate or foreign commerce.

The report on BATF's technical examination is returned to the BATF special agent for inclusion in the case report, which is then used by the U.S., state, or district attorney in determining whether to prosecute a case. BATF's experts frequently testify in court. If court or other deadlines require quick action, other work can be postponed so that needed firearms evidence can be classified. However, the Chief of the Firearms Division said he wants to avoid having to do this on a regular basis.

The workload for classifying firearms evidence has increased. The 765 cases received in fiscal year 1990 represent a 25-percent increase over the number of cases received in fiscal year 1989 (614). At the end of fiscal year 1990, BATF had completed 725 cases and had a backlog of 40 cases for which it needed to classify firearms evidence.

To help meet the increasing workload in classifying firearms evidence, BATF is planning to fill two new positions during fiscal year 1991. The Division Chief said that without this additional staff, BATF might have to stop accepting special requests by other agencies and reduce the number of cases where BATF classifies the evidence for joint investigations.

---

## **Law Enforcement Needs Better Management Information**

Law Enforcement's current management information system, LEMIS, cannot provide answers to important questions such as "was the investigation accomplished in a competent manner? Was it successful and if not, why not? Was it completed on time?" Law Enforcement officials said that a post-of-duty's performance is currently measured primarily by statistics on the number of cases and defendants recommended for prosecution. To better assess performance, Law Enforcement needs to incorporate and use efficiency, quality, and timeliness measures in its management information system.

LEMIS is the primary source of statistical information relating to BATF's law enforcement efforts. It contains statistical information, such as the number of arrests, property seizures, and criminal prosecutions. LEMIS was developed in 1982 and has undergone three major revisions to make it more useful to headquarters and district offices. A Law Enforcement official responsible for LEMIS said that (1) he believes Law Enforcement is now capturing accurate information that is relevant to its operations and (2) as districts come on-line through the use of local area networks, they will be able to use the information to manage their day-to-day operations. Prior to coming on-line, district offices submitted data to LEMIS but generally did not use the system themselves. As of December 1990, 19 of the 22 district offices were connected to the local area network and plans call for the remaining districts to be connected during fiscal year 1991.

An array of efficiency, timeliness, and quality measures would, in our opinion, give BATF a better perspective on its overall performance. It would also provide additional information that could be useful to Treasury and Congress in overseeing BATF's operations and reviewing BATF's budget requests. In developing its measures, BATF might consider indicators such as the number of cases completed per staff year, an efficiency indicator Law Enforcement told us it currently uses. Other indicators could include the average time it takes to complete a case report (timeliness) or the percent of cases accepted for prosecution in federal or state court (quality). BATF is in the best position to determine which indicators should be measured.

Law Enforcement officials said that since each case is unique, a timeliness standard would require agents to adhere to arbitrary time standards. Our intent is not to force agents to adhere to an established time constraint but to develop an average so Law Enforcement can look at its performance over time.

---

## **Conclusions**

Increases in BATF's Law Enforcement workload have put more demands on some BATF support functions. Although we saw no evidence of any serious adverse effects from these demands, the potential exists. Backlogs in the microfilming of firearms records can result in unacceptable delays in providing Law Enforcement agents with critical evidence about the ownership of a firearm. Similarly, delays in classifying firearms evidence can adversely affect the ability to prosecute cases in court. Each of these situations may be alleviated through increases in resources.

Although staffing increases are one solution, there may be others that involve a better use of existing resources. BATF would be better situated to identify those kinds of opportunities if it had better management information. By further developing and using measures of efficiency, timeliness, and quality, BATF could better assess its overall performance and determine trends over time. This information would not only help BATF manage its growing workload and meet competing demands but would also be of use to the Department of the Treasury and Congress in meeting their oversight responsibilities.

---

**Recommendation to  
the Director of BATF**

We recommend that the Director of BATF ensure that BATF develops a more comprehensive performance measurement system for Law Enforcement. This system should include measures of efficiency, timeliness, and quality.

# Description of the Taxes BATF Collected in Fiscal Year 1990

---

The Office of Compliance Operations is responsible for collecting

- excise taxes on alcohol and tobacco products;
- transfer taxes and making fees for weapons registered under the National Firearms Act of 1934; and
- special occupational taxes from alcohol producers and dealers; tobacco manufacturers and exporters; and firearms importers, manufacturers, and dealers.<sup>1</sup>

Tables I.1 and I.2 show the various tax rates and fees in effect during fiscal years 1990 and 1991. In September 1990, we reported some of the economic inefficiencies and administrative problems related to alcohol excise taxes and special occupational taxes.<sup>2</sup> In May 1989 we also reported on the revenue potential of restoring excise taxes to past levels.<sup>3</sup>

---

<sup>1</sup>The Bureau of Alcohol, Tobacco and Firearms (BATF) assumed responsibility for collecting firearms and ammunition excise taxes from the Internal Revenue Service (IRS) in January 1991. IRS collected \$134 million in these taxes in fiscal year 1989.

<sup>2</sup>Alcohol Excise Taxes: Simplifying Rates Can Enhance Economic and Administrative Efficiency (GAO/GGD-90-123, Sept. 27, 1990).

<sup>3</sup>Tax Policy: Revenue Potential of Restoring Excise Taxes to Past Levels (GAO/GGD-89-52, May 9, 1989).

**Appendix I**  
**Description of the Taxes BATF Collected in**  
**Fiscal Year 1990**

**Table I.1: Alcohol and Tobacco Excise  
Tax Rates for Fiscal Years 1990 and 1991**

Type of tax	1990 tax rate	1991 tax rate <sup>a</sup>
<b>Alcohol excise taxes</b>		
Distilled Spirits	\$12.50 per proof gallon <sup>b</sup>	\$13.50
Beer <sup>c</sup>	9.00 per barrel <sup>d</sup>	18.00
Wine <sup>e</sup>		
Still wines <sup>f</sup>		
Not more than 14 percent alcohol	.17 per wine gallon	1.07
More than 14 percent and not more than 21 percent alcohol	.67 per wine gallon	1.57
More than 21 percent and not more than 24 percent alcohol	2.25 per wine gallon	3.15
More than 24 percent alcohol	12.50 per proof gallon	13.50
Champagne and other sparkling wines	3.40 per wine gallon	No change
Artificially carbonated wines (wine coolers)	2.40 per wine gallon	3.30
<b>Tobacco excise taxes</b>		
Small cigars (weighing 3 pounds or less per thousand)	.75 per thousand	.9375 per thousand <sup>g</sup>
Large cigars (weighing more than 3 pounds per thousand)	Tax equal to 8.5 percent of the wholesale price but not more than \$20 per thousand	10.625 percent of the price not to exceed \$25 per thousand <sup>g</sup>
Small cigarettes (weighing 3 pounds or less per thousand)	8.00 per thousand	10.00 per thousand <sup>g</sup>
Large cigarettes (weighing more than 3 pounds per thousand)	16.80 per thousand	21.00 per thousand <sup>g</sup>
Cigarette papers	.005 per 50 papers	.625 per 50 papers <sup>g</sup>
Cigarette tubes	.01 per 50 tubes	1.25 per 50 tubes <sup>g</sup>
Pipe tobacco	.45 per pound	56.25 per pound <sup>g</sup>
Snuff	.24 per pound	.30 per pound <sup>g</sup>
Chewing tobacco	.08 per pound	.10 per pound <sup>g</sup>

<sup>a</sup>The 1991 rates are contained in the Omnibus Budget Reconciliation Act of 1990 (Public Law 101-508), which took effect on January 1, 1991.

<sup>b</sup>A proof-gallon is a gallon of 100 proof spirits (50-percent alcohol by volume). The tax on distilled spirits of lower or higher proof is \$13.50 per gallon multiplied by the ratio of the proof to 100.

<sup>c</sup>For small breweries with an annual production of under 2 million barrels, there is a reduced rate of \$7.00 per barrel for the first 60,000 barrels and \$18 a barrel on the remaining beer.

<sup>d</sup>One barrel equals 31 gallons.

<sup>e</sup>Small wineries producing 250,000 wine gallons or less a calendar year are allowed a credit of \$ .90 per wine gallon on the first 100,000 gallons produced except for champagne and other sparkling wines. The \$.90 credit is reduced by 1-percent for each 1,000 wine gallons produced in excess of 150,000.

**Appendix I**  
**Description of the Taxes BATF Collected in**  
**Fiscal Year 1990**

<sup>f</sup>Still wine tax rates are based on the percentage of alcohol present in the wine by volume. For example, if the wine has less than 14 percent alcohol by volume, it is considered a table wine and is taxed at the lowest rate.

<sup>g</sup>The Omnibus Budget Reconciliation Act of 1990 stipulates that these tax rates will be further increased on January 1, 1993.

**Table I.2: Rates of Other Taxes**  
**Administered by BATF in Fiscal Year**  
**1990**

Type of tax	Annual rate
<b>Alcohol special occupational taxes</b>	
Retail dealers (distilled spirits, wine, or beer)	\$250
Wholesale dealers (distilled spirits, wine, or beer)	500
Brewers <sup>a</sup>	1,000
Nonbeverage drawback claimants <sup>b</sup>	500
Users/dealers of industrial alcohol	250
Alcohol fuel plants <sup>c</sup>	1,000
Distilled spirits plants <sup>a</sup>	1,000
Bonded wine cellars, warehouses, and bottling houses <sup>a</sup>	1,000
<b>Tobacco special occupational taxes</b>	
Manufacturers of tobacco products <sup>a</sup>	1,000
Manufacturers of cigarette papers and tubes <sup>a</sup>	1,000
Tobacco export warehouses <sup>a</sup>	1,000
<b>Firearms special occupational taxes</b>	
Firearms importers <sup>a</sup>	1,000
Firearms manufacturers <sup>a</sup>	1,000
Firearms dealers	500
<b>Firearms making fees and transfer taxes</b>	
Title II weapons transfers <sup>d</sup>	200
Any other weapons transfers <sup>e</sup>	5
Making tax <sup>f</sup>	200

<sup>a</sup>These taxpayer classes are eligible for reduced rates (\$500 rather than \$1,000) if the taxpayers' total gross receipts for the most recent income tax year (not just receipts relating to the activity subject to special occupational tax) are less than \$500,000.

<sup>b</sup>Firms that use alcohol in making nonbeverage products (such as using alcohol in flavors like vanilla extract or using rum to make rum cakes) may file a claim to be refunded (or "drawback") all but \$1.00 per gallon of the alcohol excise taxes paid. In order to claim a drawback, the manufacturer must have paid the special occupational tax.

<sup>c</sup>Small alcohol fuel plants, which produce less than 10,000 proof gallons in a calendar year, are exempt from the special occupational tax.

<sup>d</sup>Title II weapons of the 1968 Gun Control Act include dangerous weapons such as machine guns, sawed-off shotguns, silencers and destructive devices, including grenades, bombs, and mines. Rate given is per firearm.

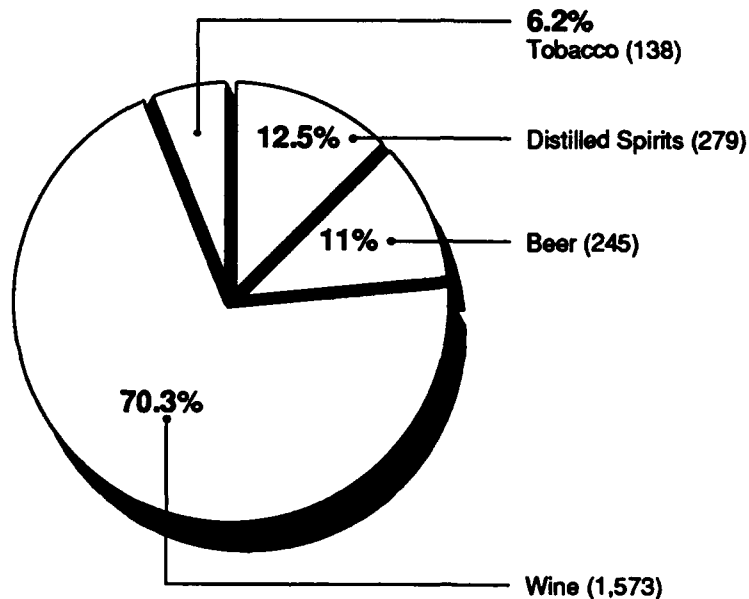
<sup>e</sup>The term "any other weapon" is statutorily defined under section 5845(e) of the Gun Control Act. Such weapons include fountain pen guns, belt buckle guns, and cane guns. Rate given is per firearm.

<sup>f</sup>Rate given is per firearm.

**Appendix I**  
**Description of the Taxes BATF Collected in**  
**Fiscal Year 1990**

In fiscal year 1990, the Bureau of Alcohol, Tobacco and Firearms (BATF) collected almost \$5.8 billion in alcohol excise taxes from about 2,100 wineries, breweries, and distilled spirits plants and \$4.3 billion in tobacco excise taxes from about 140 tobacco producing facilities. As shown in figures I.1 and I.2, wineries comprise about 70 percent of the total number of alcohol and tobacco excise taxpayers, but they accounted for only about 3 percent of the fiscal year 1990 excise tax collections. On the other hand, tobacco producers accounted for about 6 percent of the taxpayers and about 43 percent of the collections.

**Figure I.1: Number of Alcohol and Tobacco Excise Taxpayers**

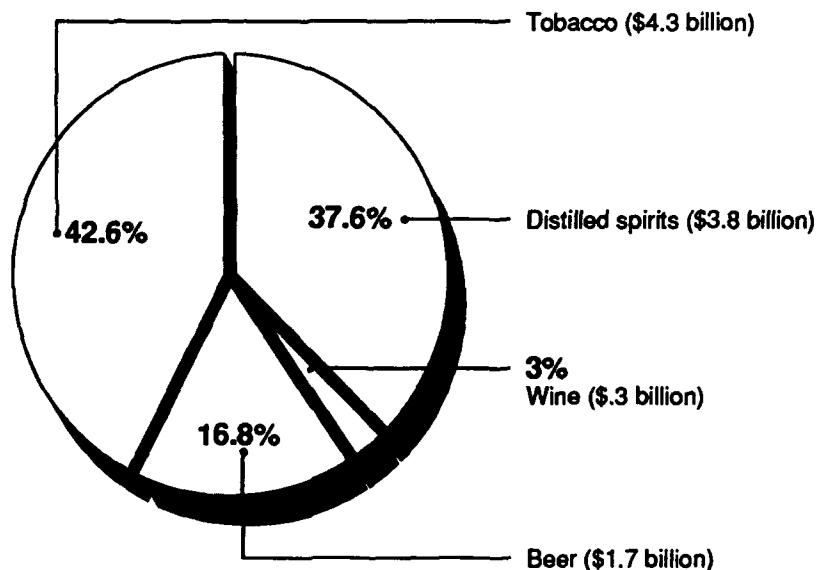


Source: BATF data.



Appendix I  
Description of the Taxes BATF Collected in  
Fiscal Year 1990

Figure I.2: BATF's Excise Tax Collections  
in Fiscal Year 1990



Source: BATF data.

In fiscal year 1990, BATF also collected \$130.1 million in special occupational taxes. Of this amount, \$128.5 million came from alcohol taxes, \$1.4 million from firearms taxes, and about \$.2 million from tobacco taxes. Most of the special occupational taxes BATF collected (\$117 million, or about 90 percent of the total) came from alcohol retailers.

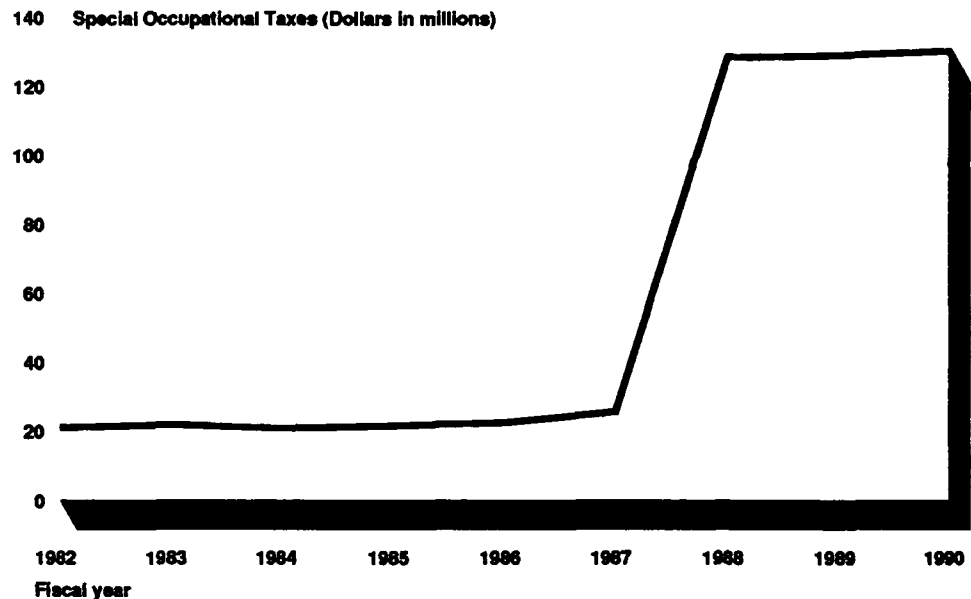
BATF assumed responsibility for collecting special occupational taxes from IRS in July 1987. Because BATF estimated (on the basis of surveys and information in our 1986 report on occupational excise taxes<sup>4</sup> that about 40 percent of the alcohol retailers were not paying their occupational taxes, Compliance Operations instituted a vigorous enforcement effort. That enforcement effort contributed to the significant increase in special occupational tax collections shown in figure I.3 (from \$26 million in fiscal year 1987 to \$128 million in fiscal year 1988).<sup>5</sup>

<sup>4</sup>Tax Administration: Compliance and Other Issues Associated With Occupational Taxes (GAO/ GGD-86-49, June 5, 1986).

<sup>5</sup>These increased collections were also the result of special occupational tax increases contained in the Omnibus Budget Reconciliation Act of 1987. Before January 1988, retail alcohol dealers who sold only beer were taxed at \$24 a year while retailers who also sold wine or liquor were taxed at \$54 a year. These rates are now \$250 annually. The top rate for all alcohol, tobacco, and firearms special occupational taxes, which had been \$500 annually, was increased to \$1,000.

Appendix I  
Description of the Taxes BATF Collected in  
Fiscal Year 1990

Figure I.3: BATF's Special Occupational  
Tax Collections, Fiscal Years 1982  
through 1990



Source: BATF data.

In April 1989, BATF consolidated its tax collection and disbursement functions at its Tax Processing Center in Cincinnati. About 90 percent of the Center's workload is related to special occupational tax collections. The Center receives deposit information daily and identifies delinquent taxpayers. It examines special occupational tax returns (except for firearms special occupational tax returns, which are sent to BATF headquarters) and maintains the special occupational tax database. Excise tax returns are forwarded to BATF's regional offices for review.

Compliance Operations also maintains the National Firearms Act register in its headquarters, where it records applications for the manufacture and transfer of National Firearms Act firearms. Weapons such as machine guns, sawed-off shotguns, destructive devices, handguns, and silencers must be registered and are subject to taxes. As of December 31, 1990, there were 503,671 weapons on this register.<sup>6</sup>

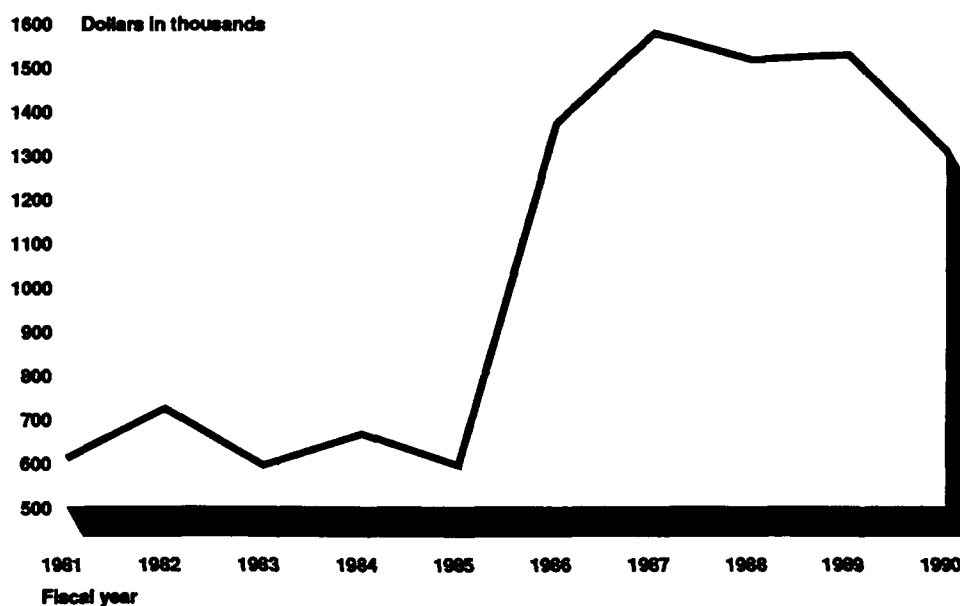
With certain exceptions, dealer-to-dealer transactions in National Firearms Act firearms are subject to a transfer tax of \$200 per weapon and

<sup>6</sup>Proposals to include semiautomatic assault-type weapons on this register would substantially increase BATF's workload. BATF estimates there are 3 million semiautomatic assault-type weapons in the United States.

**Appendix I**  
**Description of the Taxes BATF Collected in**  
**Fiscal Year 1990**

manufacturers of a National Firearms Act firearm are subject to a making fee of \$200 per weapon.<sup>7</sup> In fiscal year 1990, BATF collected about \$1.3 million in transfer taxes and making fees, as shown in figure I.4.

**Figure I.4: Firearms Transfer Taxes and Making Fees Collected by BATF, Fiscal Years 1981 Through 1990**



Source: BATF data.

The total taxes BATF collected in fiscal year 1990 amounted to over \$10 billion. Table I.3 itemizes these taxes.

**Table I.3: Total Taxes Collected by BATF in Fiscal Year 1990**

Type of tax	Taxes collected
Alcohol excise taxes	\$5,752,448,000
Tobacco excise taxes	4,267,013,000
Special occupational taxes	130,081,000
Firearms Transfer taxes and making fees	1,308,000
<b>Total</b>	<b>\$10,150,850,000</b>

<sup>7</sup>Importers, manufacturers, and dealers who pay a special occupational tax to import, manufacture, or deal in National Firearms Act weapons are exempt from transfer taxes and making fees on transactions with other firearms special occupational taxpayers. There is also an exception for firearms classified as "any other weapon," such as fountain pen and cane guns. These firearms are subject to a transfer tax of \$5 per weapon.

## How BATF's Office of Law Enforcement Establishes Priorities

Law Enforcement uses a Crime Impact Program (CIP) to establish priorities and set workload goals for each fiscal year. This approach, which was adopted in 1980, is used to direct field investigative activities. The goal of CIP is to "target . . . specific crime problems and criminal organizations which are of concern to the community, but are beyond the capability of state and local law enforcement agencies to contain."

Because crime problems vary from state to state and from locality to locality, BATF's priority setting process begins at the post-of-duty level. Each post-of-duty prepares an assessment of crime problems in its locality and ranks them in terms of importance, i.e., on the basis of the severity and urgency of the problem. The crime problems identified in the assessments are listed under eight categories, including narcotics trafficking, violent crime, and organized crime.

The special agent in charge of each district office uses the assessments prepared by each post-of-duty in the district to rank the district's crime problems overall and develop the district's impact plan. That plan indicates what the district will do to address the identified problems and sets objectives for the number of cases the district will investigate in each category. These objectives may be modified depending on available resources.

Headquarters combines the 22 district offices' rankings of these eight categories to describe the agency's national priorities for the fiscal year.

The eight categories, in fiscal year 1990 priority order nationwide, are

- narcotics, focusing on drug dealers and organizations that use firearms in their illegal operations;
- violent crime, targeting individuals involved in violent crime who have previously been convicted of armed robbery, aggravated assault, and murder;
- stolen property, targeting burglars and fencing operations illegally dealing in large quantities of stolen firearms;
- firearms, focusing on career criminals who possess firearms, unlicensed firearms dealers, licensed dealers selling firearms without keeping required records, and international firearms traffickers;
- arson, focusing on large scale arson-for-profit schemes;
- organized crime, focusing on organized crime groups that use firearms, explosives, and arson to perpetuate their illegal activities;

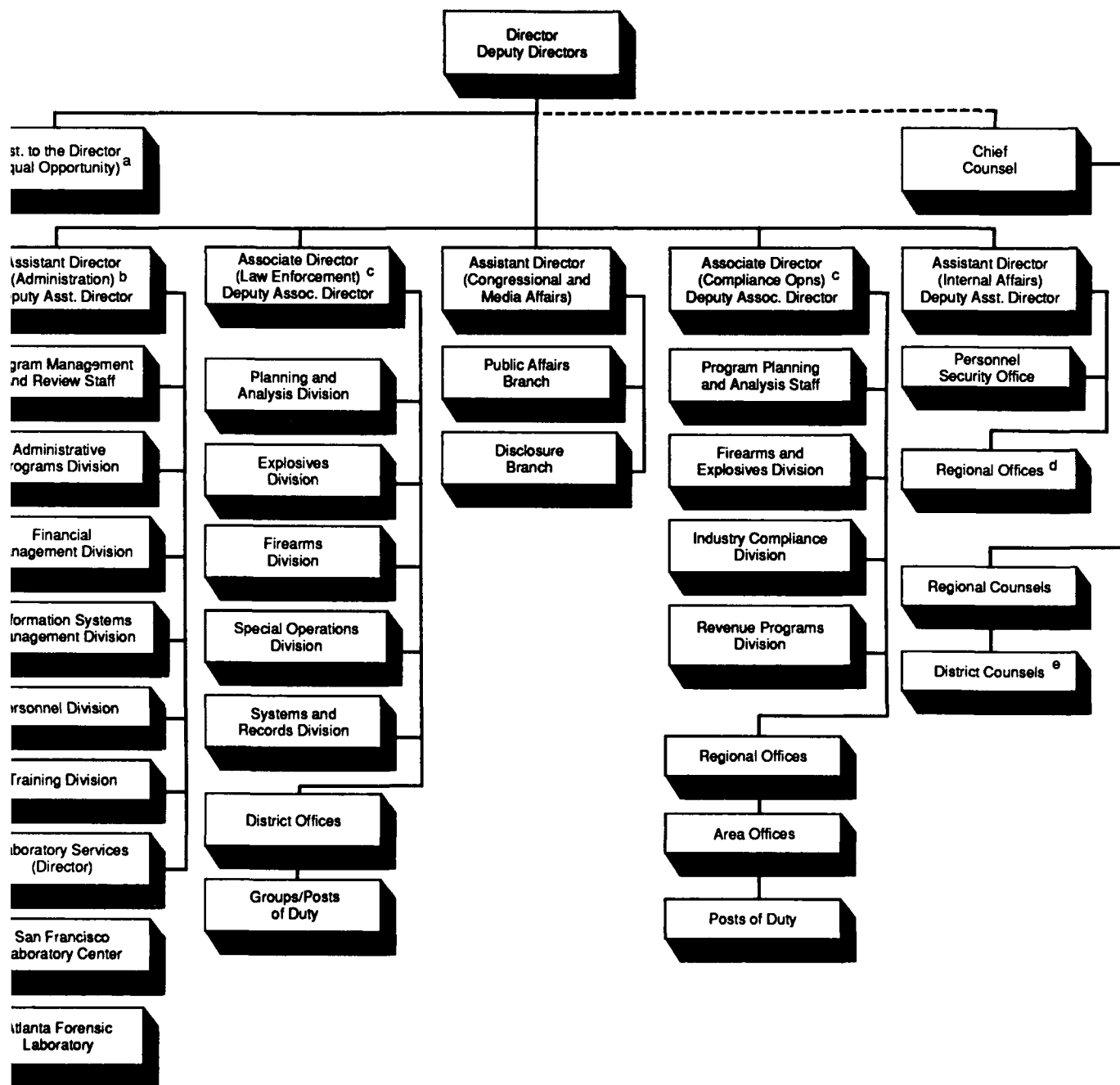
- explosives, targeting individuals involved in the illegal possession, sale, or theft of explosives; the unlawful storage of explosive materials; and the illegal manufacture of destructive devices; and
- domestic terrorism, targeting extremist groups that advocate violence and commit crimes using firearms and explosives.

Because the number of alcohol and tobacco cases is so small and are done on an as-needed basis, no categories have been established for these cases in ranking priorities.

The last stage of CIP is an annual evaluation of accomplishments. Special agents in charge analyze their districts' implementation of CIP when establishing objectives and developing plans for the next fiscal year. A formal report evaluating the district's accomplishments is submitted to headquarters.

Headquarters monitors each district's CIP accomplishments through both formal processes and informal meetings with district officials. Headquarters reviews each district's progress every 3 months and evaluates their performances twice a year. District offices also submit reports for review by headquarters that point out any deviations from the original district office projections.

# Organization Chart of the Bureau of Alcohol, Tobacco and Firearms



---

**Appendix III**  
**Organization Chart of the Bureau of Alcohol,**  
**Tobacco and Firearms**

---

<sup>a</sup>Field Equal Opportunity Offices located in New York, Atlanta, Chicago, and San Francisco.

<sup>b</sup>Field personnel stationed in Atlanta; San Francisco; Rockville, Md.; and Glynco, Ga.

<sup>c</sup>Associate Directors serve concurrently as Deputy Directors.

<sup>d</sup>Field personnel stationed in Atlanta; Chicago; Falls Church, Va.; and San Francisco.

<sup>e</sup>Cincinnati and Philadelphia only.

Source: Department of the Treasury Bureau of Alcohol, Tobacco and Firearms.

---

# Major Contributors to This Report

---

## General Government Division, Washington, D.C.

David J. Attianese, Assistant Director, Tax Policy and Administration  
Issues  
Joseph H. Myers, Assignment Manager  
Susan Ragland, Evaluator-in-Charge  
Sharon T. Paris, Evaluator  
Maria Dickerson, Evaluator

---

## New York Regional Office

William C. Petersen, Regional Assignment Manager  
Rosa Pagnillo-Lopez, Site Senior

---

## San Francisco Regional Office

Suzy Foster, Regional Management Representative