PART ONE:
Understanding the Recordkeeping Regulations

Why Are We Here?

The regulations regarding recordkeeping, accuracy and compliance apply equally to all federal licensees, whether you are a small, one-person gunsmith, a mom-and-pop firearms retailer or a major manufacturer or distributor of firearms. While a majority of large manufacturers, distributors and retailers use custom Acquisition and Disposition (A&D) software, smaller FFLs tend to use off the shelf products ranging from pen-and-paper solutions to electronic recordkeeping tools. As we will discover, A&D accuracy is the cornerstone for successfully navigating the regulatory landscape. An existing licensee with a legacy, home grown A&D system or a new startup may not have the capital or infrastructure to implement a fully integrated, customized A&D recordkeeping suite, despite being held to the same regulatory standard. We hope that this guide will highlight two critically-important, yet extremely diverse concepts:

- Requirements for compliant recordkeeping; and
- Points to consider when leveraging technology to achieve compliant recordkeeping.

In a few paragraphs, we will discuss how to utilize your regulatory requirements to define your recordkeeping success. Understanding the regulatory recordkeeping requirements are critical in your evaluation of off-the-shelf solutions or establishing a do-it-yourself recordkeeping processes.
A&D Accuracy is the Cornerstone of Compliance.

Inspection Priorities Can Define Your Success and Risk Factors

A licensee’s Book of Acquisitions and Dispositions can be viewed as the foundation for your annual compliance inspection. Goals with respect to annual compliance inspections are discussed above, but include:

1. Ensuring the licensee is maintaining accurate required forms (e.g., Form 4473; Form 3; Form 4; Form 5; Form 9; Theft, Loss or Missing Inventory Reports; Reports of Multiple Sale, etc.);

2. Ensuring the licensee is maintaining an accurate Book of Acquisitions and Dispositions;

3. Maintaining the traceability of certain firearms, including where they were acquired from and to whom they were disposed;

4. Disposition reports (including reports of multiple sale) which may lead to the discovery of illegal firearms diversion and trafficking.

Understand An Inspector's Goals to Define Your Success and Risks

One of the best ways to ensure the demonstrable accuracy of a licensee’s records during an annual compliance inspection than a complete bi-directional match between on-hand inventory and the A&D Book, and supporting documentation (when required) for disposed firearms.

As you can see, the top focuses during the inspection process all center on information that is initially contained in three major sources: (a) Inventory on-hand; (b) A&D Records; and (c) supporting documentation and required forms. For Title I firearms (and even to a degree Title II firearms), an investigator will need a starting point from which to conduct their inspection. This starting point is the licensee’s A&D Book. The accuracy of these records can make or break the success of an inspection with respect to verification of inventory and supporting required forms, as this information will be validated against information contained in the A&D Book.

A&D accuracy is so critical to the inspection process that an important first step of most inspections will be for the assigned IOI to conduct a bi-directional inventory of the licensee’s books and physical inventory. Although inspections may be conducted with slight variation, in practice, the process is as follows:

1. All physical firearms on the licensed premises and any off-site storage are compared to the A&D Book to ensure that all physical inventory is acquired; and

2. All open entries in the A&D Book are compared to physical inventory to verify there is a physical firearm for each open entry to ensure that no inventory is lost, stolen or unaccounted for.
Even after the inventory portion of the annual compliance inspection is complete, the A&D Book will still play a central role in the remainder of the inspection, as closed entries (dispositions) will be reviewed against other required forms (Form 4473, Reports of Multiple Sale, Form 3/4/5/9 for NFA dispositions or Missing Inventory/Theft Loss reports).

The Book of Acquisitions and Dispositions – Purpose and Structure

What is the A&D Book?

At its core, the Book of Acquisition and Dispositions (or A&D Book, Bound Book, or simply “the Book”) is so named because, in its most basic form, consists of sheets of paper bound together to prevent tampering or removing or inserting record entries and contains records in accordance with ATF regulations. Historically, these records were kept on paper, but many business operations (both large and small) utilize an electronic version for purposes of efficiency. Additionally, electronic recordkeeping software often contains logic that includes built-in data validation features.

The purpose of the Book of Acquisition and Disposition is fairly simple; it is a register that tracks the movement of a firearm through a licensed facility by the incoming and outgoing entries in the book. If, for any reason, a law enforcement agency needs to trace a firearm, they can do so by following the trail created by the transfers recorded in your Book. The A&D Book is a cornerstone of the ATF’s tracing of firearms, and ensuring it is kept in a timely and accurate manner is a paramount concern to the industry’s regulators.

Every time a firm acquires a firearm, the FFL records acquisitions in its A&D Book, citing important and required information, such as the serial number and a general description of the firearm, date of the transaction and where it was acquired from. Likewise, every time a firearm is disposed of, similar information must be recorded. The federal requirements for the information captured and the appropriate formats is discussed in greater detail, below.

Acquisition vs. Disposition vs. Neither

In order to keep accurate records, the licensee must first understand what information must be captured, and what types of transactions must be recorded in the A&D Record. While the below examples do not take the place of the regulations, they should directionally guide you when reading pertinent laws. Note that the timing of these entries should be made in accordance with the specific rules of ATF Ruling 2013-5 or any Ruling that supersedes it.
**Acquisitions**

An acquisition occurs when a licensee takes possession of (or finds itself in possession of) a firearm which it did not have before, or discovers that it is in possession of a firearm for which no prior regulatory records exist. Examples of when to acquire a firearm in your A&D Book include:

- At the point of firearm serialization (i.e., when it is created and marked in accordance with regulatory timing parameters);
- Receipt of firearm from a licensee or non-licensee when it has been formally transferred to you (see regulated definition of a “transfer”);
- A to-be-repaired firearm that stays overnight in your facility;
- A firearm delivered for sale or consignment that stays overnight in your facility;
- When you “find” a firearm that was previously reported as scrapped (i.e., destroyed), stolen or lost.

**Dispositions**

A disposition is the opposite of an acquisition. A disposition occurs when a firearm leaves the possession of a licensee, or discovers that it is not in possession of a firearm for which no a regulatory record exists. Examples of when to dispose a firearm in your A&D Book include:

- When you are unable to locate a firearm and have formally reported it as a Theft or Loss to the ATF;
- Firearm destruction (or scrap);
- Normal transfers to another licensee or non-licensee.

**Special Circumstances – Simultaneous Acquisitions & Dispositions**

As you may know by now, firearms come in many forms. For example, the serialized component of a rifle is the receiver. When a receiver is assembled into a rifle, or disassembled back to a receiver, it is technically changing form (per ATF Ruling 2012-1). Such changes in form have different identities (as defined by the regulations), and require the creation of a new record to reflect the new configuration of the firearm. Therefore, changes in form will result in a self-disposition (e.g., recording a disposition to the licensee of a firearm in its former configuration, despite the firearm not leaving the licensed premises) and self-acquisition (e.g., recording an acquisition by the licensee of a firearm in its new configuration which is already on the licensed premises) that is recorded in the Book.

**Neither Acquisitions nor Dispositions**

Certain transactions can appear to meet the above definitions of “Acquisition” or “Disposition”, but are in fact, neither. The following transactions are not recorded in the A&D Book as acquisitions or dispositions:

- Temporary assignments to employees for bona fide business reasons as defined in ATF Ruling 2010-1 (and firearms returned by the employee which were previously temporarily assigned);
• Movements to an offsite warehouse that has legally been approved as part of an FFL per the regulations;
• Movements inside of a facility to change its storage location;
• Changing the value of a manufactured or purchased part;
• Change in part number, Stock Keeping Unit (SKU) or material number (unless the ATF characteristics also change).

Note that some of these transactions would appear to warrant a “disposition”, however, if you understand how regulators view each of these transactions from a traceability perspective, it becomes more clear why each is not a disposition.

• Temporary assignments to employees for a bona-fide business purposes are viewed as still being in the custody and control of the licensee, and therefore should not be disposed (the firearm can still be traced to the licensee);
• Approved offsite storage locations are viewed as an extension of the licensed premises and are therefore still in the custody and control of the licensee;
• Internal movements inside the licensed premises are still retained by the licensee and;
• Changes in financial value, part number, material number or SKU do not change the regulated physical characteristics of a firearm and they remain in possession of the licensee.

Other Special Circumstances – Timing and Circumstances Determine Whether an Acquisition or Disposition

• **Escorted Company Firearms:** Firearms leaving or entering the premises of an FFL while under the escort of an employee from that FFL for bona fide business purposes (ATF Ruling 2010-1) are considered “Temporary Assignments” and do not constitute an acquisition or disposition. This might happen, for instance, if a third party sends one of their employees to escort (fully under their control) a firearm while it is being camo coated at another business’ facility. However, if the employee doesn’t maintain possession (i.e., control) of the firearm, or if it stays overnight out of their control, it will become an acquisition of that other facility and a disposition in yours.

• **Personal Firearms:** If an employee brought his or her firearm to work for a few hours, and, it was physically segregated (e.g., remaining under their control and ideally marked as such), an acquisition or disposition would not be required. However, if the employee fails to retain control, and comingles it with other company assets for an extended period of time, the ATF would argue that it was acquired (thus requiring an A&D acquisition entry) and require a NICS background check, 4473, and a formal disposition record upon the return of that asset to the employee.

Clear as mud? Very good. Let’s take a look at how the Bound Book is laid out.

**Layout of the Bound Book**

The bound book itself is a multi-page book comprised of many formatted, lined pages. Each firearm has one or many horizontal rows in your bound book (or electronic coun-
The information in each row is divided into three sections – information about the firearm, information about the party you acquired it from, and information about the party you disposed it to.

The following image is a sample manufacturing FFL bound book. The layout and requirements vary by FFL type as provided in Sections 478 and 479 of the regulations.

**Sample Manufacturing A&D Book**
*(Note that the regulated form varies depending on the type of FFL held by the licensee; please consult the regulations for the regulatory requirements)*

<table>
<thead>
<tr>
<th>Description of a Firearm</th>
<th>Acquisition</th>
<th>Disposition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Description of a Firearm</td>
<td>Model</td>
<td>Serial Number</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
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<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*An example of a Manufacturing or Dealer FFL A&D bound book page. (Source: Orchid Advisors)*

The first set of information recorded in the bound book will be the regulated information for the firearm itself (as defined in 27 C.F.R. 478.92 or 27 C.F.R. 479.102), and includes the following information:

- **Manufacturer/Importer:** Every firearm should be engraved with a manufacturer’s name per the regulations. In the case of imports, imported firearms should also be engraved with the importer’s name, again per the regulations. Both must be recorded in the Bound Book.

- **Country of Manufacture:** This information should be engraved on every imported firearm (27 CFR 478.92(a)(1)(ii)(E)). Country of manufacture is only required to be entered in an importer’s A&D records. If you are not the importer of a firearm, country of manufacturer is not recorded (but the foreign manufacturer and importer still must be recorded).

- **Model:** The model will be engraved on the firearm. If the model is unknown, (for instance a frame that has not yet been engraved), you may put “UNKNOWN.”

- **Serial Number:** Every firearm must bear a unique serial number. The firearm’s serial number will be engraved conspicuously, per the regulations.
• **Type:** The “type” of firearm should reflect the type at the point of transaction to enter the acquisition or disposition into the book, not future or past configurations. This would include terms such as pistol, revolver, rifle, shotgun, frame, receiver, etc. Note: do not confuse Type with the firearm’s action such as bolt, lever, semi, etc., as these are not required to be entered.

• **Caliber or Gauge:** The caliber or gauge is engraved on the firearm. If unknown, use the word “UNKNOWN.”

After the basic information is recorded, you must input the information surrounding the acquisition transaction by which you are receiving the firearm. This will include the following information:

• **Acquired Date:** This is the date on which the firearm was physically acquired or manufactured. In the case of imports, it is the date released from U.S. Customs, not the date of physical receipt.

• **Acquired From Name and FFL:** This is the name and FFL number (if applicable) of the person or entity that transferred the firearm to you (the full 15-digit FFL number should be entered). If a firearm is received from an FFL holder, the Acquired Name should match the name listed on their FFL.

• **Acquired From Address:** This is the physical address from which the firearm came.

Not surprisingly, the disposition record mirrors the logic of the acquisition record and requires the following information:

• **Disposed Date:** This is the date on which the firearm was disposed.

• **Disposed to Name and FFL:** This is the name and FFL number (if applicable) (the full 15-digit number should be entered) of the person or entity to whom you transferred the firearm. If the recipient is not an FFL holder or if they are not an exempt party (e.g., U.S. Government) per the regulations, a NICS/4473 transaction must occur. It is helpful to enter the Form 4473 transaction serial number (from the Form 4473) to assist in matching a disposition record to a Form 4473. If your Form 4473’s are not pre-serialized, it is acceptable to develop an in-house 4473 serialization standard, but be consistent. Also, the Form 4473 serial number does not replace the disposed-to address.

• **Disposed To Address:** This is the physical address to which the firearm was transferred. When entering Disposed to Name and Address for Sold To / Bill To transactions, be careful to accurately report the proper information.
Sample Manufacturing A&D Book
(Note that the regulated form varies depending on the type of FFL held by the licensee; please consult the regulations for the regulatory requirements)

<table>
<thead>
<tr>
<th>Description of a Firearm</th>
<th>Acquisition</th>
<th>Disposition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturer and/or</td>
<td>Name and Address or License No.</td>
<td>Address or Licensee. No. if Licensee, or Form 4473 SN if Form 4473 Filed</td>
</tr>
<tr>
<td>Model</td>
<td>Date</td>
<td>Date</td>
</tr>
<tr>
<td>Serial Number</td>
<td>Caliber</td>
<td></td>
</tr>
<tr>
<td>Type</td>
<td>Date</td>
<td></td>
</tr>
<tr>
<td>Manufacturer and/or</td>
<td></td>
<td></td>
</tr>
<tr>
<td>A152</td>
<td>.38</td>
<td></td>
</tr>
<tr>
<td>Acme Mfg.</td>
<td>12/1/15</td>
<td></td>
</tr>
<tr>
<td>1234</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revolver</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wholesaler,</td>
<td></td>
<td></td>
</tr>
<tr>
<td>123 Main Street,</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Anytown, State</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

An example of a Manufacturing or Dealer FFL A&D bound book page. (Source: Orchid Advisors)

Electronic Recordkeeping

A more in-depth discussion regarding electronic recordkeeping, including maintaining an electronic A&D Book are governed by ATF Ruling 2013-5 and are discussed in greater depth later on. However, electronic records are conceptually and functionally identical to hand-written records, with more than a few advantages, such as:

- Self-auditing functionality to call out or highlight missing or omitted data;
- Enhanced controls and audit functionality to prevent changes and ensure all required amendments are made in a lawful manner;
- Integration with manufacturing or shipping processes;

In the event that you’re using an electronic version of the Book of Acquisition and Disposition, you can expect to find the same format and information; the fields, layout and logic must be managed in accordance with ATF regulations and ATF Ruling 2013-5. (See “Changes to the A&D Book and Notes” section.)

International and Domestic Transactions

As it pertains to the A&D Book, there are some, albeit not too many, differences between domestic transactions and international transactions. The following is a summary of those differences, but ATF regulations cited in 27 C.F.R. 478 et seq. and 27 C.F.R. 479 et seq. should be fully understood. Additionally, international
transactions (particularly dispositions to non-United States entities) may implicate additional laws and regulations, including the Export Administration Regulations (EAR), International Traffic in Arms Regulations (ITAR), the Arms Export Control Act (AECA). Although not discussed in this guide, and although these regulations to not implicate a licensee’s obligations to maintain acquisition and disposition records, it is critical for an importer or exporter to fully understand these additional requirements, laws and regulations.

- Imported firearms are marked with an “Importer” of record, which is also to be recorded, along-side the Manufacturer of record (see 27 CFR § 478.92 and 479.102);
- Whereas most transfers to license and unlicensed parties result in an acquisition or disposition denoted with the physical date of exchange, import acquisitions must use the date of release from U.S. Customs into the United States (see 27 CFR § 478.112(d));
- Records of Acquisition and Disposition relating to international entities will not include a Federal Firearms License (FFL) number. Foreign entities are not governed by U.S. agencies and do not hold FFLs. Therefore, that field should be left blank on the A&D Book (see 27 CFR § 478.47).

Timing of Acquisition and Disposition Entry

In general, it is a best practice to record your firearms as soon as acquired or disposed of. However, this is not always possible and/or practical. There are three basic time restrictions, and these are critically important items to communicate throughout your organization (see 27 CFR §§ 478.125(e) and 478.125(g)):

- Manufacturers have 7 days to record acquisitions and dispositions;
- Any FFL involved in importing has 15 days to record acquisitions pertaining to the import itself (from the date released from US Customs); Importers holding an Import FFL have 7 days to record all other (domestic) acquisitions and dispositions;
- Retail (or dealer) acquisitions upon first receipt must be recorded no later than the close of the next business day. If commercial records of firearms received contain all acquisition information required by the bound book, the dealer may – for a period not exceeding 7 days – delay making the required acquisition entry into their bound book. Dealers have 7 days to record their dispositions. Again, with the exception of original import acquisitions, every other acquisition and disposition must reflect the date of the actual event.

In all cases, the 7 or 15-day delays are only windows to permit the licensee time to record the information in your A&D Book. In all cases, the multi-day allowance is for administrative processing only. The actual date used should reflect the date of the physical event, not necessarily the day that you got around to making the entry. Note that for imported firearms, the “date of the physical event” is the date the firearms were released by U.S. Customs and Border Protection, not the date they arrived at your facility.
Changes to the A&D Books and Notes

Your records are required to be kept thorough, accurate, and up-to-date. However, sometimes new information comes to light, changing the nature of your records. It is recommended that corrections be kept to a minimum. If you find yourself consistently correcting your existing records (in accordance with the regulations, of course), you should consider implementing stronger record-keeping controls.

If you must make a correction to your electronic records, the rules are clearly stated in ATF Ruling 2013-5. The ruling states, verbatim:

*The system must retain any correction of errors as an entirely new entry, without deleting or modifying the original entry (e.g., macro created to track changes). Alternatively, the system may allow for entries in a “notes” column to explain any correction and/or track changes i.e., what was changed, who made the change, why the change was needed). ATF suggests that the record-keeping system be capable of blocking fields from correction (e.g., protect workbook function).*

If you need to make corrections to your paper bound book, remember to make a single line through the error (no eraser or white-out). Then initial and date the change made.
PART TWO:
Evaluating Electronic Solutions

Integrating the Rules with the Features

There is a very good reason we started with an in-depth discussion of the A&D Book and the recordkeeping requirements of Chapter 27 of the Code of Federal Regulations: Because, as a federal licensee, compliance is ultimately your responsibility. While the next section delves more into the business aspects of recordkeeping considerations and options for integration with cross-business functions, ultimately the primary questions you should always ask when evaluating any new A&D system or making improvements to an existing one are (1) is my current process compliant; and (2) will my future process be compliant? While the answer to number one may be no, or “needs improvement”, in all cases, the answer to point two should always be yes. Compliance with the regulations is the most critical feature of designing any A&D recordkeeping system or process, and all further points and considerations should be made in that context.

Federal Regulation Surrounding Electronic A&D Records

From a general point of view, the mandate to reduce paper and go electronic within the Federal Government has been growing strongly since the passage of U.S. Government paperwork reduction legislation in the 1980s and 1990s. This included, amongst other stipulations, that federal agencies provide individuals or entities with the option of
submitting information or transacting with any agency electronically, when practicable, and to maintain records electronically, when practicable. Over time, this responsibility on the part of the government has since been expanded to include private industries as well, through the implementation of various regulations.

In the firearms industry, core regulatory requirements for recordkeeping are contained in Title 27, Code of Federal Regulations (CFR §§ 478.121, 478.122(a), 478.123(a), 478.125(e), 478.125(f), 27 CFR § 479.131, various ATF Rulings, amongst other laws and regulations.). On a very high-level, these regulations delineate the responsibilities of businesses operating within the firearms industry to maintain accurate, current, and organized records of selected firearm transaction activity (eg., Acquisitions and Dispositions). In the wake of increased movement towards electronic recordkeeping, the ATF released Ruling 2008-2 and later Ruling 2013-5, (superseding 2008-2).1

A few core features of 2013-5 include:

- It clarifies the necessary methods of correcting records.
- It defines that your electronic records system must retain any correction of errors as an entirely new entry, while keeping an unmodified original entry. Alternatively, it allows for (and in some cases requires) entries in the “notes” section of your software system to explain corrections. This should include things like what was changed, by whom, when, and why the change was necessary.
- It infers permission to use Microsoft Excel (or similar spreadsheet/database oriented tools), but Excel is not a recommended primary solution unless it is well controlled.
- It states that the system cannot rely upon invoices or other paper/manual systems to provide any of the required information.
- It states that the system must back-up the firearms acquisition and disposition records on a daily basis to protect the data from accidental deletion or system failure.
- It states that the system must allow queries by serial number, acquisition date, name of the manufacturer or importer, name of the purchaser, and address of purchaser or other transferee.
- It states that a business’ electronic records must be stored on a server owned and operated solely by the person who holds the respective Federal Firearms License. In addition, it poses that this server must be located within the United States.
- It states that a licensee must be capable of printing (or downloading) his or her records within 24 hours of request from the ATF.
- Additional requirements are also stated therein. Please refer to the ruling for full details.

This said, there is an important area in 2013-5 to note about servers. While we live in the “cloud” age today, where businesses like Dropbox, Google Drive, and Microsoft OneDrive thrive through the use of cloud-based storage, it can sometimes be unclear whether a rented or shared server in the cloud is “owned and operated by the licensee.” This is important to note for any company considering electronic A&D record-keeping. Suffice it to say that any business considering implementing an electronic A&D system that utilizes the cloud should be aware of the requirements stated in 2013-5.

Specific products such as the FFL Compliance Manager™ has been approved by ATF

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1 The full 2013-5 Ruling can be found on the ATF’s website.
for its compliance with this ruling despite the cloud-based entry of the Acquisition or Disposition. This is because the cloud solution is merely the data capture tool and the licensees A&D records are placed on the licensees server at the close of each business day. It is widely known that ATF has written the Ruling that will supersede 2013-5 and, although the wording is not yet known, will permit cloud based tools. It's release is anticipated in 2016 but is not known for certain.

Should I Stay Or Should I Go [Electronic]?

“If I go there will be trouble; and if I stay it will be double. So come on and let me know…”

The Clash would seem to tell us that system implementation, particularly new system implementation and the vetting, change control and training that go along with it can be an onerous proposition. However, sticking with the same systems and processes, particularly ones that have placed a licensee in a “not in compliance” or “at risk” determination during a prior ATF compliance inspection can be a fatal proposition, at least in a regulatory sense. Whether you are a startup creating your A&D records from scratch, or an existing FFL looking to either implement an improved system or looking to optimize your existing infrastructure, the first, and most basic point of consideration is to determine whether your will pursue a pen-and-paper (traditional bound book) solution, or an electronic solution.

Common Pitfalls to Selecting Electronic Record Keeping Methods

Whether you are optimizing selecting an existing system or starting anew, consider the following common constraints to success:

1. Relying on your Information Technology Personnel to Define Functional Specifications: The ATF regulations are not functional specifications – don’t just hand them to your tech wiz and think that your new application will be efficient and compliant.

2. Ignoring Scalability Considerations in your Development: There are money savings and business strategies embedded in your decisions – be mindful of what you design into systems. At some point in the future you may choose to expand your business and start importing, exporting, gunsmithing or some other activity that requires regulated ATF controls. By the same token, be wary of paying for development, implementation or purchasing features you have no intention of using. While this is not only a bad financial decision, it greatly increases the risk
of non-compliance. The existence of latent features could give you (or your business) more than one way to conduct a particular transaction, (e.g., the right way and the way that seems to do the same thing on the surface) and could result in a non-compliant result if used improperly.

3. Relying on What Worked in the Past: Policies, procedures and training, even when prepared by Legal and Compliance professionals do not make a compliant environment. High volume transactions require system solutions to achieve repetitive success. Any pen-and-paper solution, or a off-the-shelf solution such as Microsoft Excel for A&D recordkeeping meets all the regulatory requirements if used properly, the “used properly” being the key. As your business scales and transaction volume increases, the need for a self auditing system with more robust controls becomes critical.

4. Not All Consultants are Alike: Getting strategic advice on your overall system design can keep you from doing it twice. Just because a world-class Retail Consultant or Warehouse Management Consultant was hired doesn’t mean that your software will work in this industry. We’ve stepped into many process and system improvement meetings where the existing team said, “What do you mean the Book of Acquisition and Disposition? What is that?” The firearms industry has unique needs. While inventory management, point-of-sale, supply chain management or warehouse management are common to many manufacturing, sale and distribution operations, the firearms industry has additional regulations and recordkeeping requirements that often do not exist in other solutions.

5. Implementing on the Fly and Live-Environment Testing: Don’t test your fancy new retail Point of Sales system and e4473 in a live environment. System testing of serialization lasers, practice 4473s, or firearm transfers may actually become regulated activities and audited in the future!” Just because you did not mean to create a regulated record does not mean the regulated record you just created is not auditable and expected to be true, accurate and correct.

The Traditional “Bound Book”

Perhaps the easiest and least expensive solution to meeting the bare minimum record-keeping standards in Sections 478 and 479 is with a traditional, pen-and-paper bound book. This solution requires minimal training, minimal cost and zero infrastructure, aside from perhaps a trip to the nearest office supply store and a sturdy desk. The firearms industry did business under this model for the better part of 50 years, and it worked – at least well enough. That said, a traditional bound book is the least-controlled, least integrated and, as your business grows, least scalable solution. Additionally, because you can write literally anything into your bound book, to ensure you have correct, accurate and lawful entries in your records, anyone with access to the regulated record must have a firm grasp on the regulatory requirements for recordkeeping and knowing what transactions warrant what entries, and must have the diligence and discipline to make timely and accurate entries each and every time, as this type of record is not integrated with other business practices and operations at any level.
Electronic A&D Software Solutions
– General Introduction

The movement of paper-based processing to electronic means is nothing new. Since the first personal computers started their transition to a ubiquitous business tool in the early 1980s, numerous business processes have been transformed into a series of logical system based transactions.

The continual rise of Enterprise Resource Planning (ERP) software, Customer Relationship Management (CRM) software, and Records Management (RM) software (amongst others) serves as testament to this fact. In fact Aberdeen Research found that 92% of top organizations use ERP systems for their operations. Many industries have shifted towards software and away from paper-based practices for practicality; that is, in most cases, software is implemented because it enhances a business’s efficiency, profitability, decision making and, most importantly control over execution.

However, businesses within the firearms industry have more than just their bottom line to look out for – they must abide by and uphold all appropriate ATF regulations. Thus, to this effect, the continual shift towards electronic record-keeping within the firearms industry is a reflection of businesses’ ongoing efforts for both profitability and compliance.

Electronic A&D Software Solutions – Eight Core Features to Consider

If you have determined that electronic A&D software meets your goals, consider what features and capabilities are critical to your business. While various vendors offer a
variety of different features at different price-points, there are a few key features of any electronic A&D software package that you should watch for. Take note, the following is not an exhaustive list and is designed to improve your software purchasing process by providing a few key considerations.

1. **Internal Controls and Contextual Validation:** The number one feature you should consider in your A&D software is internal controls. Does the application have the controls to limit mistakes? If not, an electronic bound book may be nothing more than an online version of paper, which does have some but not as many benefits. The leading benefit to software is its ability to prevent errors from happening. For example, if you know that an FFL number has to be a certain number of characters (i.e., 15), your A&D book shouldn’t allow a user to enter more or fewer characters in that field. You should not be able to enter a future date, for instance. Fields that work off system-defined lists, like firearm types, help avoid errors and variances in data. Contextual validation is another valuable consideration, and is really a subset of internal controls. For example, the data should understand its context in light of other inputs, allowing the system to be able to recognize an imported firearm based on the shipping address or a known make-model combinations. The best software packages will confirm the context of your answer in light of all your other answers.

2. **Business Integration:** The most valued feature is integration. Across the stand-alone A&D book applications discussed in this paper, you will find a wide variety of integration options. For example, does the A&D automatically populate when you receive or sell (e.g., Point of Sale)? More sophisticated software offered by EPICOR and other vendors will likely achieve higher levels of integration with your overall business.

3. **Reporting:** A solid electronic A&D package should provide pre-built reports (e.g., An “Open Dispositions” report), ad-hoc, and saved reporting.

4. **Downloading / Exporting:** For any electronic A&D software, having the ability to select specific fields for export through a range of format options is fairly essential and can increase your ability to audit the accuracy of your A&D thereafter.

5. **Backup:** Make sure the software features both automated and manual backup options. In addition, check and see if your exports are encrypted and/or allow for saving to off-machine destinations. While these aren’t vital, they are certainly preferable.

6. **User Access Rights/User Management:** Check to see that the software allows for different privileges based upon the class or authority-level of the user. Role-based management (that is, being able to define a “clerk” role versus a “manager” role) is a best-practice and will aid your compliance efforts.

7. **Forms Integration:** It can be helpful if the software allows for broad support in forms, including e4473 forms, Multi-Sale forms, NFA forms, State forms (e.g., MA, NY, CT, VA), and Theft / Loss forms.

8. **NICS Background Check Integration:** Depending on the product sold, you may
need both federal and state background checks integrated into the 4473 sales process. Think about it: You have already entered pertinent customer information into your sales system, why not put that data to work for you electronically as well? Note, this feature is not always capable of being automated and in many cases requires use of a telephone. Don’t be fooled into believing that everything is fully automated.

Also, in addition to the core features, there are some value-added items and considerations that some current software packages offer:

1. **Inventory Management**: Inventory management can be an incredibly important integration factor, and allows businesses to more effectively manage and keep track of their inventory.

2. **Dealer-to-Dealer Transfers**: Facilitating for dealer-to-dealer transfers is a feature specifically of value to dealers, and can help them process large transfers more easily and efficiently.

3. **Networked Databases**: Having a networked database model – wherein you can link different locations or different bodies of data to maximize efficiency.

4. **Online Auctions**: Online auctions can be a neat feature, specifically for smaller retail operations attempting to expand their sales reach.

5. **Bar Code Printing**: Of greater use to smaller retail operations, bar code printing can help dealers create and print bar code labels for their firearms.

6. **Support**: Support is arguably one of the most under-valued aspects of the FFL software-buying process. Most clients require a good deal of instruction and Q&A before the software is properly integrated into their systems and general operations. In addition, support is a crucial indicator of how a business values its clients. Be very careful, many of the industry’s current offering were developed by hobbyists for hobbyists and do not offer formal support.

7. **Policy and Training Management**: Consider whether your software solution should also contain all your company compliance policies, online training and regulatory guidance.

8. **User Interfaces**: The User Interface is the face of the software your employees will be using on a daily basis. It should be aesthetic, professional, and easy-to-navigate? Making sure the user interface is smooth, efficient, and simple is crucial.

9. **Scalability**: Evaluate to what extent can software be scaled across your business/business functions as you add more people, more products, and more locations. The more scalable the software, the more of a future it has with your business; the more of a future a software has with your business, the more valuable it is.
Final Thoughts

In summing up our analysis we offer these final thoughts:

1. **Understand the Regulations to Understand your Requirements.** Compliance with regulations is the most important feature of any electronic A&D solution. If a new system makes it more likely for your FFL to engage in (inadvertent) non-compliant behavior, it is no better than your existing system. Vendors may promise a compliant product, but that isn’t always the case, and understanding the requirements of the law is critical to defining a specification for a new system or evaluating an off-the-shelf solution.

2. **Understand your Business to Understand your Requirements.** All licensees have to follow the same rules, but not all licensees have the same business requirements. While scalability is a factor, a retail dealer who implements an integrated A&D book meant for a manufacturer or importer would both be a waste of money and provide opportunities for misuse, leading to lost dollars and lost compliance.

3. **There is no single platform that does everything.** No one appears to have done a ground-up implementation – all platforms seem to have a genesis in some initial client application, and was subsequently further developed heavily with that as an anchor point. So a firm like Business Automation Specialists coming from a manufacturing slant will have stronger operations features and larger volume scale, than a product like Gun Shop, which was developed with a holistic retail store in mind. As you talk with these vendors, ask them about their history and their current client base to understand if it is a good fit for you.

   **A key decision point:** Is this A&D software or Gun Shop software? What do you want it to do? Understand the role of point-of-sale in your deliberations – if you are overhauling that too in your operation, then you need to consider how it will be provided as part of this solution.

4. **Compliance is still your responsibility.** Getting a software vendor does not mean you now have someone to blame if something goes wrong. You are still ultimately responsible for abiding by the laws and regulations, and understanding the rules and regulations discussed in Part One of this document is as important (if not more) than evaluating all the high-speed features of your potential new software. Not all of these systems are compliant – even though some of them outright claim they are compliant. Buyer beware, user be even more aware.

5. **Usability is king.** Software is only as good as users use it. Some of the better features allow for better accessibility to processes, such as the kiosk features we’ve discussed. Make sure your lowest common denominator employees try out the systems before you buy.

6. **Don’t go cheap on support – you get what you pay for.** If a vendor has a support option, pay for it, at least for the first year. It is more important to overpay and get it right, than underpay and do it wrong. Check out any forums for responsiveness and software issues. Check out version histories to make sure they are updating the software on a regular basis.
About Orchid Advisors

Orchid Advisors assists firearms manufacturers, distributors and retailers in achieving compliance and operational excellence through education, technology, software and consulting solutions that reduce risk, cut costs, and provide expert guidance to make our client’s business more successful and efficient.

Our unique methodology provides process, technology and internal control solutions that achieve all three objectives at once. Our consultants derive their expertise from years served in Fortune 500, Federal Government, Global Business Consulting and Legal environments. Orchid Advisors is the only compliance consulting firm endorsed by the NSSF.

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About NASGW

The National Association of Sporting Goods Wholesalers (NASGW) is comprised of wholesalers, manufacturers, independent sales reps, media and service providers – both national and international – all of whom are primarily focused on shooting sports equipment and accessories. As a trade association representing the business interests of its members, NASGW’s mission is to bring shooting sports buyers and sellers together. NASGW also serves as a liaison with other sporting goods associations, including the National Shooting Sports Foundation (NSSF), Congressional Sportsmen’s Foundation (CSF) and the National Rifle Association (NRA). NASGW is also a member of the National Association of Wholesaler-Distributors (NAW). For more information about the NASGW, visit the association’s website at www.nasgw.org.