FISCAL YEAR 2011

PERFORMANCE AND ACCOUNTABILITY REPORT

Selective Service System

Director
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Financial Management
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November 15, 2011

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Message from the Director

The Selective Service System (SSS) documents responsibility and accountability through implementation of its Performance Budget, Strategic Plan, and this 2011 Performance and Accountability Report (PAR). The Agency reviewed and assessed program performance, and financial management systems in particular, to guarantee that organizational stewardship is in accordance with the Government Performance and Accountability Act, the Government Management and Reform Act, and the Federal Managers' Financial Integrity Act.

I am pleased to report that, for the fourth year in a row, SSS has received an unqualified financial audit opinion. The FY 2011 independent audit disclosed no material weaknesses and a remedial plan is underway to correct the non-material weaknesses.

The independent FY 2011 Federal Information Security Management Act (FISMA) audit provided a qualified assurance determination that the SSS IT security program has two material weaknesses remaining to be corrected. While substantial improvements have been achieved since my arrival on December 4, 2010, we acknowledge these shortfalls and accept the associated risk because the complete solution involves resources beyond our ability to fund. Nevertheless, where solutions are available and feasible, SSS will continue to work these issues. I am pleased to announce that our major Registrant Compliance and Verification (RCV) project to move with U.S. Military Entrance Processing Command off its mainframe computer to a smaller, more capable platform is complete – ahead of time and on budget. A collateral and very positive benefit is that our primary registration system has now been brought into full compliance with all federally mandated security requirements.

The financial statements contained herein fairly present the Agency's financial position and were prepared in accordance with generally accepted accounting principles and in accordance with Office of Management and Budget (OMB) Circular A-136, Financial Reporting Requirements, Revised June 10, 2009.

Lawrence G. Romo

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HOW TO USE THIS REPORT

This PAR contains the SSS's performance goals, measures, results, and accounting activities for FY 2009. The SSS's assessment of performance is a comparison of actual performance to the annual goals contained in the Agency's FY 2009 Performance Budget.

The report has five parts:

Management's Discussion and Analysis

This section contains our Agency's Mission, History, Organizational Structure, Performance Highlights, Financial Highlights, Management Control, and the President's Management Agenda.

Performance Details

This section contains detailed performance information for FY 2009. It contains our annual performance goal, actual performance, discussion, impacts, planned action/schedule, and verifications and validations.

Financial Details

This section contains details about our financial performance for FY 2009. It includes our audited financial statements, notes, and reports from the independent auditing firm of Leon Snead & Company, P. C.

Appendix

This section contains a chart presenting five years of Agency performance results data for FY 2005 thru FY 2009 and the Performance Targets for FY 2010.

Glossary

This section contains acronyms and their abbreviations.

Agency at a Glance

Mission

The Agency's missions, defined in the Military Selective Service Act (MSSA) (50 U.S.C., app 451 et seq) are to remain prepared to provide personnel to the Department of Defense (DoD) in the event of a national emergency, and to provide an Alternative Service Program for those from the manpower pool who seek and are granted conscientious objector status.

Although only the registration function is publicly visible in peacetime, components of our mission which are in place greatly increase timeliness, fairness, and equity in the event of an actual return to conscription. The higher the registration rate, the more fair and equitable any future draft will be for each registrant. The Agency works through its registration and compliance programs to (1) register all eligible men; (2) identify non-registrants and remind them of their obligation to register; and, (3) inform young men that they need to register to remain eligible for numerous Federal and state benefits which include student financial aid, job training, government employment, state driver's licenses, and U.S. citizenship for male immigrants.

Many states and U.S. territories reinforce the registration requirement by implementing laws that require or allow men to register with the Selective Service for job training, employment and/or student financial aid, as well as when they apply for a state driver's license or identification card. Increasing the percentage of electronic registrations (through sources such as driver's license legislation, the Internet and interactive voice recognition on the telephone) reduces the cost per registration and advances the efficiency of the overall registration process.

Another aspect of the statutory SSS mission is to manage a conscription program for the U.S. Armed Forces, if authorized by the Congress and directed by the President. In this event, SSS will hold a national draft lottery, contact those registrants selected via the lottery, and arrange for their transportation to a Military Entrance Processing Station (MEPS).

Once notified of the results of their evaluation at the MEPS, a registrant may choose to file a claim for exemption, postponement, or deferment. If a claimant is re-classified by their local Board as a conscientious objector (CO), he has a requirement to serve in a non-military capacity for two years. The SSS places these workers into its Alternative Service Program with non-military employers and tracks their fulfillment of a two-year service requirement.

As the Agency embraces its traditional missions, it also focuses on the future. The SSS leadership understands that both national and international events require fresh perspectives and a clear recognition of changing realities in this new century. Therefore, SSS stands ready to respond to future events at the level of readiness determined by elected national policy-makers and available resources.

History

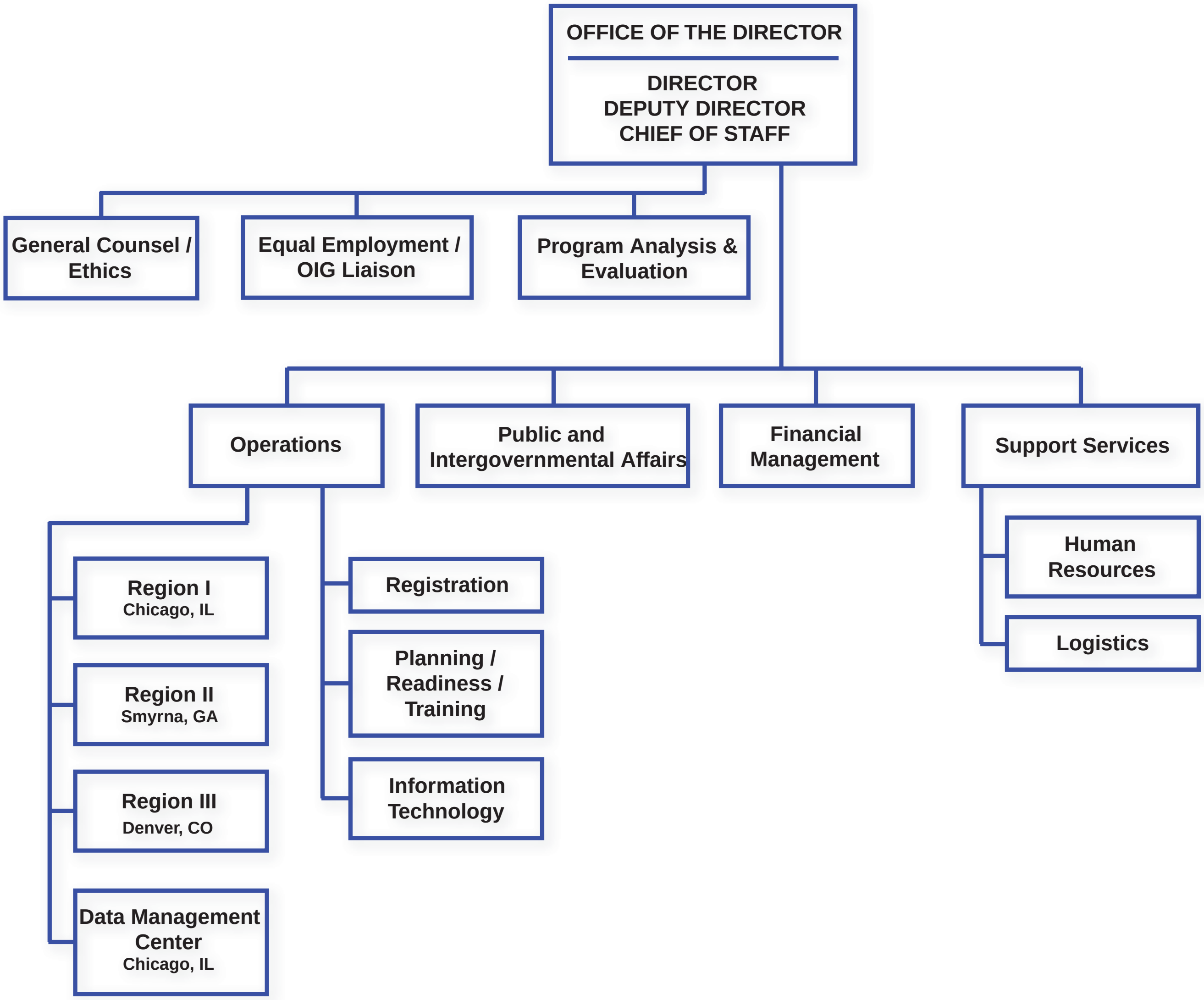
For more than 71 years, SSS and the registration requirement for America's young men has served as a backup system to provide manpower to the U.S. Armed Forces during times of national crisis. In 1940, SSS was established as an independent Federal civilian agency, and, since the conversion to an all-volunteer military in 1973, registration has continued uninterrupted since 1980.

To accommodate the uncertainty of the future, the Agency has built flexibility into its programs, systems, and plans. To satisfy budgetary constraints and policy guidance, the Agency has utilized its resources as efficiently and effectively as possible while reducing program readiness.

Organization

SSS has a diverse composition of a small cadre of career employees, part-time military personnel, and volunteer private citizens dedicated to satisfy its statutory goals of peacetime registration and to maintain the capability to conduct conscription. By far, the largest component of the Agency's workforce is the approximately 11,000 uncompensated civilian men and women who serve as volunteer Local, District, and National Appeal Board Members. When activated, these citizen volunteers will determine the classification status of men seeking exception or deferments, based on conscientious objection, hardship to dependents, or their status as ministers or ministerial students. Additionally, several thousand volunteer private citizens are participating in the SSS High School Registrar program and are authorized to administer and receive registrations from young men.

Selective Service System Organizational Chart



Performance Highlights

Goals Overview

The SSS has two overriding strategic goals directed toward the achievement of its missions designated by the U.S. Congress.

Goal 1: Ensure the capacity to provide timely manpower to DoD during a national emergency.

Objective 1 — Strive to maintain acceptable registration compliance rates.

For CY 2010, the Selective Service national overall estimated registration compliance rate was up one percent over CY 2009 for men ages 18 through 25 who were required to be registered. For the 18 YOB group, the compliance rate was 69 percent, remaining the same as CY 2009; the 19 YOB group was 89 percent, up two percent; and the 20 through 25 YOB groups (the draft-eligible groups) were 96 percent, the same as for CY 2009. Eighty-six percent of all registrations for FY 2010 were received through electronic processes, a one percent gain over FY 2009. Thirty-three percent were from driver's license registrations, twenty-three percent from the Internet (www.sss.gov), and twenty-four percent from the Department of Education.

Objective 2 — Maintain ability to call, classify, and deliver personnel timely.

When activated, SSS will hold a national draft lottery, expand Agency components, contact those registrants who have been selected via the lottery, and arrange for their transportation to the MEPS for physical, mental, and moral evaluation, and as required send induction orders. Once that occurs, registrants, who chose to do so, can begin the process of filing claims for reclassification if they are found to be acceptable for induction into the Armed Forces.

SSS continues to provide training, including Web-based, to Board Members, State Directors, and Reserve Force Officers to ensure the retention and enhancement of operational knowledge in the event the Nation returns to conscription.

Objective 3 — Be prepared to administer a fair and equitable program of civilian alternative service in lieu of military service for registrants classified as conscientious objectors (COs).

By law, SSS is required to provide a supervised 24-month term of alternative civilian service in lieu of military service, for all registrants it classifies as 1-O, Conscientious Objectors. This alternative service must benefit the health, safety, and interest of our Nation.

The Agency communicates routinely with numerous peace churches and other non-military employers to establish memoranda of agreement that support a workable model for an Alternative Service Employer Network (ASEN).

Goal 2: Ensure management excellence by promoting economy, efficiency, and effectiveness in the management of SSS programs and supporting operations.

Objective 1 — World-Class Customer Service

Public service excellence is a major objective of the Agency. SSS provides information pertaining to various legislative matters, policy, procedures, and information contained in specific records. Such information is provided to both individuals and to public and private institutions. Processing and responding to inquires addressing SSS matters are important in an open, transparent government and warrant the highest level of customer service. In addition to maintaining an accurate data base which would serve as the foundation for induction and appeals in the event of a national emergency, accurate and timely processing of public transactions provides assistance to many men applying for benefits associated with the registration requirement such as federal student financial aid, job training, government employment, and citizenship for male immigrants.

Objective 2 — Efficient and effective human resource and procurement management.

Adopted and in place are the electronic official personnel folder and hiring reform tools. Additionally, SSS has had success with a 60 day hiring solution. DEU training and certification; they are complete. The agency will no longer pay OPM for its recruiting actions, these will now be done in-house, utilizing the OPM mandated system USA staffing; this is a significant savings for the agency. New requirements in support of the Hiring reform initiatives and Telework Enforcement Act are complete. Based on results of the 2011 Employee Viewpoint Survey, completion of 107 surveys represents a 91.5% participation rate -- the second highest participation rate among small independent agencies -- that exceeds by 10.6% the 2010 Agency participation rate and is almost double the government-wide 2010 rate of 49.3%. Selective Service achieved noteworthy double-digit improvement between 2010 and 2011 in five areas. Compared to 2010, the Agency has increased positively in all four summary indices.

The very significant increase in employee belief that the Agency leadership has maintained high standards of honesty and integrity (up 24% in one year), together with managers encouragement of staff collaboration (up 26%) and the communication of organizational goals and priorities (up 24%), is directly attributable to a complete change in the Selective Service front office and the reassignment of senior individuals. Employees have responded with measurable satisfaction and programmatic improvements have been recorded. The Agency's 2011 achievements are in place; the leadership's process improvement adjustments will continue.

Objective 3 — Efficient and effective financial management.

Our integrated financial management system, Oracle Federal Financials (OFF), continues to produce improvements in the financial performance arena and an overall upgrade in the areas of budget, human capital, and performance integration. Improved management of the budget execution process resulted in another year where SSS lapsed minimal funding and the annual financial audit resulted in the fourth, consecutive unqualified audit opinion. The Agency continued to make improvements in the alignment of budget to Strategic Goals and Objectives, which resulted in more accurate displays of accounting for the allocation and expenditure of financial resources in line with actual performance goals. Fiscal policies and procedures were updated to ensure compliance with GAO standards.

Objective 4 — Efficient and effective Information Technology Management.

SSS continues its multi-year technology upgrade of the Agency's hardware, software, and systems development. The Agency continues to improve e-government and IT technological improvements including the OPEN.GOV initiative, the cloud computing initiative, and improved security that effectively rebuffed hundreds of thousands of Internet-based attacks monthly.

The FY 2011 FISMA audit noted extensive remedial actions underway to correct material shortfalls from previous reports. The Agency was successful in closing all but two outstanding weaknesses and continues to address the remaining issues. Additional security applications, policies and plans were implemented and updated successfully. These proactive steps resulted in a greatly improved FY2011 audit, reflects the Agency's improved security posture, and stands as testimony to the Agency's commitment to attain full FISMA compliance.

SSS also completed a move from a legacy mainframe system to a modern platform that updated its registrant management system. The Agency and its contractor beat the October 1, 2011 deadline to be off the old system –avoiding substantial costs of renewing mainframe-related licenses and support costs in FY2012.

Objective 5 — Effective and efficient management of public communications and registration awareness of Agency programs.

The public and intergovernmental affairs activity faces the ongoing paradoxical challenge of public concern: a) the more communications made, the greater the public concern about an imminent draft; and, b) the less SSS says, the greater the amount of misinformation available. With over 6,000 young men turning 18 every day, our outreach to community leaders, other governmental and private entities, public and private influencers, and media was a major strategy during 2011 to increase registration awareness and fostering public understanding of the Agency mission.

The Agency concluded a four-tier registration awareness campaign to include (1) radio, Internet, and newspaper public service media messages; (2) high schools nationwide; (3) outreach Initiatives; and (4) social network development. During FY 2011, SSS distributed six English and Spanish radio news announcements to 6,000 stations and three TV news announcements (English and Spanish) were released to 1,000 media outlets. Additionally, the Agency produced 25 "Tips for Registration" announcements with an SSS registration message for distribution to media outlets in 2012. Also in 2011, the SSS "Tips for College" were made available for download to TV, cable TV, and PBS media outlets. They will be distributed in 2012 to high school guidance counselors. Six SSS news stories, translated into English and Spanish, were distributed to 10,000 daily and weekly newspapers and more than 700 minority Spanish and 500 African-American newspapers. SSS distributed registration posters, newspaper ads, public address announcements and other collateral materials to 40,000 SSS High School Registrars and principals. The "Ignorance of the Law Is No Excuse" campaign ran in 19 markets with low registration compliance with interior postings in 4,700 buses. SSS manned an exhibit at 29 of the Nation's leading community-based and educational annual meetings. In addition, SSS traveled to eight low compliance cities and conducted 82 meetings with educators, media, immigrant services, churches, and social service organizations targeting the hard-to-reach immigrants and out-of-mainstream youth. SSS also partnered with two national associations, the American Immigration Lawyers Association and the National Association of Student Financial Aid Administrators to expand further its outreach to young men. SSS updated its social network plan and enhanced its "Face Book" page, and "You Tube" site. In 2011, SSS sent targeted registration messages to 18-year-old males on Facebook for three months. The campaign resulted in 22,453 registration banner ad clicks.

Strategic Planning and Reporting

This Report is aligned with the SSS Strategic Plan and is an outgrowth of internal evaluations of Agency statutory responsibilities viewed in light of new challenges, fiscal issues, and the needs of Agency customers. Measurement of the Agency's institutional progress toward improved programmatic activities, service to customers, and the prudent management of fiscal resources is the basis for the development of this plan. Performance measurement, together with increasingly constrained resources, provides the path for assessing accountability between the Agency's long-term strategic vision and the day-to-day activities of its employees.

Planning and Funding Challenges

The challenges of integrating budget and performance are somewhat clouded in that all funds for the SSS are allocated in one appropriation. This one appropriation (Salaries and Expenses) is allocated throughout the Agency to support salaries and expenses, as well as programs. Thus, it has been somewhat difficult to link the amount of appropriated funds with the level of program results for any particular fiscal year since the salaries and expenses are consolidated with programmatic costs. The integrated financial management system has helped to alleviate some of the complexity associated with this effort. In addition, management has taken a new approach toward identifying individual programmatic costs at the directorate level to assist with the effort to integrate budget with performance at the program level.

The primary operational focus of the Agency in peacetime is to register men, and all performance results continue to be directed toward that goal. This report endeavors to show how the FY 2011 budget allocation was expended in support of the Agency's Strategic Goals and Objectives.

Financial Highlights

Financial Position

FY 2011 is the eighth full year of operation where the SSS' audited financial statements are being submitted to OMB in compliance with the Accountability Act of Tax Dollars of 2002. The preparation of these statements is a part of the Agency's objective to improve financial management and provide accurate, reliable information for assessing performance and allocating resources.

The SSS' financial management team, together with the Agency's leadership, is responsible for the integrity and objectivity of the financial information presented in the financial statements and used all available resources to satisfy the stated strategic goals and objectives. The financial statements and financial data reflected in this report have been prepared from the accounting records of the SSS in conformity with Generally Accepted Accounting Principles (GAAP) in the United States of America. GAAP for federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB).

Limitations of the Financial Statements

Responsibility for the integrity and objectivity of the financial information presented in the financial statements lies with SSS management. The accompanying financial statements are prepared to report the financial policies and results of the operations of SSS. While these statements have been prepared from the books and records of SSS, these financial statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records. The financial statements should be read with the realization that SSS is an agency of the Executive Branch of the United States Government, a sovereign entity. Accordingly, unfunded liabilities reported in the statements cannot be liquidated without the enactment of an appropriation and ongoing operations are subject to enactment of appropriations.

Discussion and Analysis of Financial Statements

SSS FY 2011 and 2010 financial statements report the Agency's financial position and results of operations on an accrual basis. These annual financial statements are comprised of a Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources, and related notes that provide a clear description of the Agency and its mission as well as the significant accounting policies used to develop the statements.

Consolidated Balance Sheet

The major components of the Consolidated Balance Sheet are assets, liabilities, and net position.

ASSETS. Assets represent Agency resources that have future economic benefits. SSS' assets totaled $16.250 million in FY 2011. Fund balances with Treasury —mostly undisbursed cash balances from appropriated funds—comprised about 44 percent of the total assets.

SSS does not maintain any cash balances outside of the U.S. Treasury and does not have any revolving or trust funds. About 56 percent of SSS' assets were comprised of accounts receivables, which reflects funds owed to SSS by the public and general property, plant and equipment.

LIABILITIES. Liabilities are recognized when they are incurred regardless of whether or not they are covered by budgetary resources. In FY 2011, SSS had total liabilities of $6.397 million. The largest components of SSS' liabilities were accounts payable and Federal Employee Compensation Act (FECA) actuarial totaling $1.767 million and $2.539 million respectively. Accounts payable reflect funds owed primarily for contracts and other services.

NET POSITION. SSS' net position, which reflects the difference between assets and liabilities and represents the Agency's financial condition, totals $9.853 million. This amount is broken into two categories: unexpended appropriations (amounts related to undelivered orders and unobligated balances) at $4.635 million and cumulative results of operations (net results of operations since inception plus the cumulative amount of prior period adjustments) at $5.218 million.

Consolidated Statement of Net Cost

The Consolidated Statement of Net Cost represents the net cost to operate the Agency. Net costs are comprised of gross costs less earned revenues. SSS' FY 2011 net cost of operations was $23.914 million: $24.283 million in gross costs less $0.369 million in earned revenues.

Consolidated Statement of Changes in Net Position

The Consolidated Statement of Changes in Net Position reports the changes in net position during the reporting period. SSS ended FY 2011 with a net position total of $9.853 million. The positive change in net position was primarily the result of the increase in total budgetary financing resources.

Combined Statement of Budgetary Resources

The Combined Statement of Budgetary Resources focuses on budgetary resources (appropriations and reimbursables) made available, the status of those resources (obligated or unobligated) at the end of the reporting period, and the relationship between the budgetary resources and outlays (collections and disbursements). SSS' FY 2011 budgetary resources totaled $27.323 million and were primarily made up of budget authority funds of $24.275 million and unobligated balance of $2.484 million.

Financial Management

The SSS Financial Management Directorate successfully managed resources to deliver quality financial management services to the Agency and meet all external financial reporting requirements in FY 2011. This unit achieved the goals set for re-structuring Fund Balance with treasury reporting, property management and reconciliation, and intra-governmental transactions reconciliation. For the fourth consecutive fiscal year, the Agency received an unqualified audit opinion on financial statements, with no material weaknesses. The result of the auditor's test of compliance with laws and regulations also disclosed no instance of noncompliance with laws and regulations that is required to be reported. The Agency has made progress in the development of internal controls over financial reporting and is continuing to document new, effective and improved procedures in its Fiscal Manual.

The Agency completed implementation of eTravel program for the entire agency in FY 2011. The E2 travel system provides an automated ticketing, reservation, and claims processing tool through the use of which employees are no longer required to submit paper travel authorizations and vouchers for reimbursement. Use of the E2 travel system has several benefits to include reduction of costs; increased compliance with the Federal Travel Regulations through electronic edits that were previously performed manually; and, expedited reimbursement

Director's Integrity Act Statement for Fiscal Year 2011

SSS management is responsible for establishing and maintaining effective management control, financial management systems, and internal control over financial reporting that meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA). SSS provides an unqualified statement of assurance that management control, financial management systems and internal control over financial reporting meet the objectives of FMFIA.

As of September 30, 2011, independent auditors conducted an assessment of the financial management systems and internal control over (1) the effectiveness/efficiency of operations and compliance with applicable laws and regulations, and (2) financial reporting including safeguarding assets and compliance with applicable laws and regulations, in accordance with the requirements of the Office of Management and Budget Circular A-123, "Management's Responsibility for Internal Control."

I am pleased to report that, for the fourth year in a row, the financial management systems conform with the objectives of FMFIA and the internal controls were operating effectively and no other material weaknesses were found in the design or operation of the internal control over (1) the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of September 30, 2010, and (2) financial reporting as of September 30, 2011.

The FY 2011 independent audit of our IT security program determined that it was not in compliance with FISMA requirements. Two previously identified material weaknesses remain.. I acknowledge these shortfalls and accept the associated risk because the complete solution involves resources beyond our ability to fund. Nevertheless, where solutions or partial remedies are available and feasible, I am committed to address the issues.

I am determined to provide the best service possible to the Nation. SSS stands ready to play its part if called upon during a national emergency. I will continue to upgrade the Agency's processes and talent pool. My focus is to achieve unblemished audits which will document that we are ready in all aspects to answer that call.

Lawrence Romo
Selective Service System
November 15, 2011

Management Controls

Federal Managers' Financial Integrity Act Report on Management Control

Background

The Federal Managers' Financial Integrity Act of 1982 (FMFIA) requires ongoing evaluations of internal control and financial management systems culminating in an annual statement of assurance by the agency head that:

- Obligations and costs comply with applicable laws and regulations;
- Federal assets are safeguarded against fraud, waste and mismanagement;
- Transactions are accounted for and properly recorded; and
- Financial management systems conform to standards, principles and other requirements to ensure that Federal managers have timely, relevant and consistent financial information for decision-making purposes.

Furthermore, FMFIA provides the authority for the Office of Management and Budget (OMB), in consultation with the Government Accountability Office (GAO), to periodically establish and revise the guidance to be used by Federal agencies in executing the law.

Additionally, the Federal Information Security Management Act (FISMA) requires agencies to report any significant deficiency in information security policy, procedure or practice identified (in Agency reporting) as a material weakness under FMFIA.

SSS conducts its annual evaluation of internal controls over financial reporting in accordance with OMB Circular A-123, "Management's Responsibility for Internal Control." Assessment results are reviewed and analyzed by the SSS Senior Staff.

SSS operates a broad internal control program to ensure compliance with FMFIA requirements and other laws, and OMB Circulars A–123 and A–127, "Financial Management Systems." All SSS managers are responsible for ensuring that their programs operate efficiently and effectively and comply with relevant laws. They must also ensure that financial management systems conform to applicable laws, standards, principles and related requirements. In conjunction with an independent accounting firm and GAO, SSS management has been working responsibly to determine the root causes of its material weaknesses and to efficiently correct them.

SSS is committed to reducing and eliminating the risks associated with its deficiencies and efficiently and effectively operating its programs in compliance with FMFIA.

FY 2011 Results

At the beginning of FY 2011, SSS had three FISMA material weaknesses. During FY 2011, SSS resolved one of the three. The Agency is currently researching possible solutions, but is prepared to designate the remaining two as acceptable risks given operational considerations and budget constraints. The audit provides a qualified assurance that SSS' system of internal control complies with FMFIA's objectives. The following Exhibit provides a summary of the material weaknesses and all items corrected.

Exhibit 1: Summary of Material Weaknesses

Internal Controls (FMFIA Section 2)						
Statement Of Assurance	Qualified Statements of Assurance					
Material Weakness	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Controls Over Financial Management	0	0	0	0	0	0
IT Security	3	0	1	0	2	2
Total Material Weakness	3	0	1	0	2	2
Financial Management System (FMFIA Section 4)						
Statement Of Assurance	Qualified Statements of Assurance					
Non-Conformance	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Non-conformances	0	0	0	0	0	0

Required Reporting

Exhibit Number 2 is provided to meet the reporting requirements of OMB Circular A-136, “Financial Reporting Requirements” and includes a breakdown by various categories related to the Financial Statement Audit and Management’s Statement of Assurance for FMFIA.

Exhibit 2: Summary of Management Assurances

Effectiveness of Internal Control Over Financial Reporting (FMFIA 2)						
Statement Of Assurance	Unqualified					
Material Weakness	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Reassessed**	**Ending Balance**
Controls Over Financial Management	0	0	0	0	0	0
Total Material Weakness	0	0	0	0	0	0
Effectiveness of Internal Control Over IT Security (FMFIA 2)						
Statement Of Assurance	Qualified Statements of Assurance					
Material Weakness	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Reassessed**	**Ending Balance**
IT Security	0	0	0	0	0	0
Total Material Weaknesses	0	0	0	0	0	0
Conformance with Financial Maqnagement System Requirements (FMFIA 4)						
Statement Of Assurance	Unqualified					
Material Weakness	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Reassessed**	**Ending Balance**
	0	0	0	0	0	0
Total Non-conformances	0	0	0	0	0	0

Outstanding Material Weakness

Two outstanding material weaknesses remained at the end of FY 2011: (1) Management of personal identifiable information (PII) data must be improved; and (2) Continuity of Operation Plans (COOP) must be improved.

New Material Weakness

There were no new material weaknesses.

IT Security Program

While the Agency is currently researching possible solutions, it is prepared to designate these two as acceptable risks given operational considerations and budget constraints.

Summary of Outstanding Material Weaknesses

Material Weakness Existing	SSS IT Security Program 1. Improve PII Management 2. Complete a COOP Plan

FY 2011 Accomplishments	Planned Actions: Substantially improved FISMA audit Results
NA (None)	NA (Incorporated in FY 2011)

Planned Actions
• IT security program under new management • Secure personal sensitive information data where possible • Complete COOP related • Perform a C&A of the general support network

President’s Management Agenda

The SSS seeks continuous operational improvements through an array of programs and policy changes based on the PMA.

The SSS strategy is to utilize e-commerce initiatives to improve the Agency’s procurement and financial processes through implementation of an integrated financial management system. The e-Quip and e-travel processes sponsored by OPM, continue to function properly. In FY 2012 SSS will implement an automated time and attendance record keeping system to integrate with our existing payroll application. Further, the Agency is continuing to use the USAJobs staffing tool for recruitment and hiring vice contracting this function out to OPM. Each of these changes will improve programmatic accuracy and efficiency and avoid contracting expenses in the future.

During FY 2011 SSS completed its move off the mainframe. This accomplishment will decrease operating and maintenance costs, ensure system security compliance with all Federal security and information technology requirements (FISMA, NIST, Clinger Cohen Act, Paperwork Reduction Act, etc.), increase the Agency’s technical capabilities, and allow seamless integration with external State and Federal systems as well as other systems throughout the Agency’s Enterprise Architecture.

Utilizing the Oracle Federal Financials System, the SSS continues to enhance its capability to develop methodologies that will help to ensure that the Agency is able to integrate fully its budget and performance data.

Performance Details

Program Evaluation

The program evaluations for this report were systematic reviews conducted to assess how well programs were working and to determine if they should be continued or modified. A variety of program evaluations and methodologies were used including: process evaluation, outcome evaluation, impact evaluation, cost-benefit/cost-effectiveness, and varied combinations of the above.

Evaluations conducted during FY 2011

Management reviews for the Agency computer systems, listed below, were conducted by SSS personnel and validated/certified as mission capable.

Federal Payroll Personnel System (FPPS)
Administrative Support Systems Applications
Selective Service Local/Wide Area Network and Communications
Integrated Mobilization Information System

Program evaluations were scheduled and conducted for the following areas:

- Registration and Registration Compliance Programs
- Registrar Program
- Call and Deliver Process (including the Lottery)
- Federal Information Security Management Act
- Financial Management
- Administrative Support Services
- Alternative Service Program

FY 2011 Performance

This FY 2011 PAR identifies the activities, strategies, and results that took place during the fiscal year to achieve Agency goals and objectives. It also identifies relevant performance measurement target goals to be achieved.

Goal 1: Ensure the capacity to provide timely manpower to DoD during a national emergency.

Objective 1 – Strive to maintain acceptable registration compliance rates.

Maintaining an ongoing Registration Program of men age 18 through 25 is fundamental to mission success. To implement a "fair and equitable" draft, a 90% compliance rate for 18- through 25-year-old men is required.

Note: Registration rates are for Calendar Year (CY) not Fiscal Year (FY) since registration is based on Year of Birth (YOB) Groups. For example, the 20 YOB Group covers the period of January 1 through December 31 since all registrants born in that year are the same age required for any induction requirement.

Significant Activity:

The end of FY 2011 marked a noted increase in DLL legislation occurred, with the addition of two new states with enacted and implemented legislation and four states pending implementation. A total of 39 states, 3 territories, and the District of Columbia have enacted driver's license laws supporting Selective Service registration. They are (1) Enacted and Implemented: Alabama, Arizona, Arkansas, Colorado, Delaware, Florida, Georgia, Hawaii, Idaho, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, Michigan, Minnesota, Mississippi, Missouri, Montana, Nevada, New Hampshire, New Mexico, New York, North Carolina, Ohio, Oklahoma, Rhode Island, South Carolina, South Dakota, Tennessee, Texas, Utah, Virginia, West Virginia, and Wisconsin, Guam, the Commonwealth of the Northern Mariana Islands, the Virgin Islands, and the District of Columbia; (2) Enacted But Not Yet Implemented: Maine, Maryland, Washington State, and Puerto Rico on November 11, 2011. _As a result, 712,000 men were registered under DLL in FY 2011

For FY 2011, the SSS set two performance goals for Objective 1.

Strategic Objective 1.1.1. Achieve and maintain registration rate of at least 90% or above for eligible males 18-25.

FY 2011 Annual Performance Goal:
Attain registration rate above 90 percent for eligible males 18-25.

Was the goal achieved? Yes

Results:

Projected: 92 percent (18-25 YOB Groups). Results for this goal will not be available until the end of the Calendar Year. The latest information available is for calendar year (CY) 2010, the year group registration rate was 92 percent. (See note above)

Discussion:

Registration is a crucial component of any future induction or draft to furnish personnel to the Department of Defense. The primary factors contributing to registration compliance include: (1) the enactment and implementation in states and territories of DLL requiring registration with the SSS to obtain a motor vehicle driver's license or state identification card; (2) continued use of on-line Internet registration via the SSS Web site (www.sss.gov), (3) emphasis on soliciting volunteer SSS High School Registrars; (4) increased liaison with U.S. Postal Service offices – the only national source of availability of Selective Service registration forms; and (5) focused, cost-effective registration awareness initiatives and outreach efforts to the educational and community leaders and groups. However, some of these important registration awareness initiatives/efforts were limited this FY due to funding constraints.

Impact:

For CY 2010, the Selective Service national overall estimated registration compliance rate was up one percent over CY 2009 for men ages 18 through 25 who were required to be registered. For the 18 YOB group, the compliance rate was 69 percent, remaining the same as CY 2009; the 19 YOB group was 89 percent, up two percent; and the 20 through 25 YOB group (the draft-eligible group) was 96 percent, the same as for CY 2009.

Efforts to increase registration compliance will help ensure fairness and equity in any future draft.

Planned Actions/Schedule:

For FY 2012, primary registration improvement emphasis will continue to be to assist states and territories in their efforts to enact legislation requiring SSS registration to obtain a driver's license or identification card. Our goal is 100% coverage of the Nation's potential registrant population. Thus, as states enact and implement Driver's License Legislation, in support of the registration requirement, the percentage of electronic registrations will increase, resulting in lower costs expended by the Agency for registration compliance.

Verification and Validation:

The estimated rates of registration compliance with the MSSA are an essential component in evaluating the Agency's registration program. As a result, the Agency compiles Registration Compliance Statistical Information (RCSI), which is used to provide the Agency with statistical information for the evaluation of the registration and registration compliance programs. RCSI allows management to target low/moderate registration compliance states/territories and evaluate the registration compliance program.

Strategic Objective 1.1.2. Increase the percentage of electronic registrations.

FY 2011 Annual Performance Goal: Obtain 85 percent of registrations electronically.

Was the goal achieved? Yes

Results:

Projected: 85 percent - Actual: 86 percent of total.

Discussion:

Eighty-six percent of all registrations for FY 2011 were received through electronic means, maintaining the rate from the prior year. DLL, Internet registration at www.sss.gov, and data exchanges with various Federal agencies make up the bulk of electronic registrations.

Impact:

Electronic registrations improve customer service by providing a streamlined and timely method of registering at a reduced SSS cost.

Planned Actions/Schedule:

Continue to maintain automated registration programs. Continue to provide technical assistance, as possible, to requesting states that are in the process of implementing driver's license legislation in support of the SSS registration requirement.

Verification and Validation:

Employ statistical reports that measure processing timelines and evaluate program results periodically.

Objective 2: Maintain ability to call, classify, and deliver personnel timely.

Significant Activity:

During FY 2011, SSS reviewed Memorandum of Agreements and met with MEPCOM and other DoD elements to discuss the interface between SSS' mission and MEPCOM. Additionally, SSS acquired updated lottery equipment with state-of-the-art lotto model machines and new laptops to replace the outdated capsule/insert version.

Strategic Objective 1.2.1 Be prepared to deliver personnel when needed.

FY 2011 Annual Performance Goal: Maintain the Agency's Readiness Plans which include the Call and Deliver, Reclassify, Alternative Service, and the Lottery Standard Operating Procedures.

Was the goal achieved? Yes

Results:

In the previous fiscal year, SSS completed a deliberative project management effort to update the Agency's Preparedness Plans for use upon mobilization at the national, regional, state and local levels. In addition, the Registrant Improvement Processing System (RIPS) Manual was revised to help ensure the Agency is better prepared if ever called upon to initiate conscription. During FY 2011, all Plans and Manuals were reviewed to ensure currency and accuracy and also made available to all field elements in an electronic format via the Agency Intranet.

Discussion:

The plans and procedures relating to mobilization functions are aligned with the Agency's Enterprise Architecture.

Impact:

This updating approach to preparedness ensures the Agency is able to initiate actions during a return to conscription.

Planned Actions/Schedule:

The Family of Readiness Plans is a living document that will be maintained and updated as necessary. The completion of the Agency's target Enterprise Architecture in future years will enable implementation of these plans.

Verification and Validation:

Verification and validation of the plans are satisfied by managerial and staff review.

Strategic Objective 1.2.2. Be prepared to ensure timely and consistent handling of claims.

FY 2011 Annual Performance Goal: Be prepared to activate State Headquarters, Area Offices, and SSS Board Members to timely, fairly and equitably process reclassification claims.

Was the goal achieved? Yes

Results:

The RIPS manual was updated to address the claims process and training provided to part-time military personnel and volunteer local board members. This training was developed and provided to personnel in multiple formats, to include hard copy group and self-study and electronic, and web based formats to ensure the widest possible dissemination of information.

Discussion:

Annual training of Reserve Force Officers and local board members is fundamental to the ability to be prepared to process any claims in the event of a return to conscription

Impact:

Uniform handling of claims by local boards across the nation helps ensure a fair and equitable return to conscription.

Planned Actions/Schedule:

Periodic updating of training plans as necessary.

Verification and Validation:

Routine training evaluations are utilized to improve content delivery.

Objective 3: Be prepared to administer a fair and equitable program of civilian alternative service in lieu of military service for registrants classified as conscientious objectors (COs)

Strategic Objective 1.3.2: Plan for timely job placement of ASWs when needed.

FY 2011 Annual Performance Goal: Increase membership in the Alternative Service Employer Network (ASEN) through initiatives undertaken by State Directors and RFOs at the local level.

Was the goal achieved? Yes

Results:

The first addition to the ASEN in more than twenty-five years was made in April of 2011 when the Selective Service signed an agreement with the Mennonite Mission Network. In any return to conscription, Alternative Service Worker (ASW) placements would be with Mennonite Voluntary Service, an agency of the Network and the Mennonite Church. Additional agreements were concluded with two other employers: Brethren Volunteer Service, an organ of the Church of the Brethren, and Christian Aid Ministries' Conservative Anabaptist Service Program (CASP). These three agreements will hopefully provide upwards of 500 ASW jobs. SSS has held annual electronic outreach sessions which expand the Agency's ability to interact at the local level more frequently and at minimal cost.

Discussion:

The additions to the ASEN, SSS is expanding civilian service options for conscientious objectors required to perform alternate service in lieu of military service in the event the draft is reinstated. Since 1983, agreements with the Department of Housing and Urban Development, the Department of Agriculture, Woodcrest Service Committee, Inc., the Department of the Interior, and the United Church Board for Homeland Ministries had been the only agreements in the ASEN. These five were clearly insufficient to meet the projected need of 30,000 alternative civilian service placements each year of any future draft as determined by a 1984 agency study.

The three current agreements represent a significant step forward in ensuring greater programmatic readiness. A concerted effort must be exerted each year to ensure the ASEN is capable of providing the number of placements required to fulfill this second mission of the Selective Service System.

Impact:

The inability to add employers to the ASEN had severely crippled readiness of the ASP. The addition of members to the ASEN in FY 2011 is a significant milestone in the history of the ASP and signals a renewed agency commitment to readiness to fulfill its two-part mission. Coupled with the Agency's growing reputation for honesty and fairness among its CO-advocacy constituency, activities to enlarge the ASEN move the agency forward and ensure it is prepared to act as that vital national security insurance policy and at the same time, be the protector of the rights of those conscientiously opposed to participation in war.

Planned Actions/ Schedule:

Agreements are pending with four religious employers; SSS is working to set up negotiations with the Public Health Service and expand our outreach to employers in the private sector. An agreement with the Corporation for National and Community Service has been under discussion for almost seven years and will be a significant addition to the ASEN because of its potential thousands of service placements throughout the country.

SSS is working to develop more interaction at the grass roots level among SSS State Directors and RFOs and historic peace church leadership and communities within their region. RFOs will also be invited to participate in these sessions to increase their familiarity with these issues and provide a platform from which to launch their involvement in ASEN employer recruitment activities.

Verification/Validation:

Management reports/program evaluations.

Goal 2: Ensure Management Excellence by promoting economy, efficiency, and effectiveness in the management of SSS programs and supporting operations.

Objective 1: World Class Customer Service

SSS implemented technology upgrades of the Agency's hardware, software, security and systems development processes. Efforts continue to align and integrate human capital management, financial, operational, information technology, and logistical processes, including cost accounting based on strategic goals

Objective 2: Efficient and effective resource and procurement management.

Strategic Objective 2.2.1: Improve the effectiveness and efficiency of human capital management.

For FY 2011, the SSS set two performance goals for Strategic Objective 2.1.1.

- Complete implementation of the Strategic Human Capital Management plan (HCMP).
- Complete implementation of the Homeland Security Presidential Directive (HSPD-12) initiative.

FY 2011 Annual Performance Goal: Complete implementation of the Strategic Human Capital Management plan.

Was the goal achieved? No

Results:

Although the HCMP has been published, full implementation remains. Results of the annual Federal Employee Viewpoint Survey necessitated a shift of limited resources and expertise to address employee satisfaction issues. This action is now complete and efforts will refocus on completion of this action by the end of FY12.

Discussion:

Full implementation of the HCMP requires resolution of recent issues with employee satisfaction concerns. The results of the FY 2011 survey were received and analyzed and represent a marked improvement for the Agency. Employees were engaged and corrective actions were put in place where appropriate to address their concerns. Efforts to evaluate the Individual Development Program are planned for FY12. The Agency worked to fully implement the SWAT, End-2-End and Hiring Model initiatives championed by OPM. Analysis of the SSS hiring model indicated that the Agency's efforts are ahead of the general plan with the average time to hire less than 60 days vs. the OPM goal of 80 days.

Impact:

Provides the long-term strategies for enhancing the Agency's most valuable resource: its people.

Planned Actions/Schedule:

Continue to evolve improved hiring practices in concert with President Obama's May 2011 Hiring Reform mandate, to eliminate the requirement to address KSAs, inform applicants of the status of their applications throughout the hiring process, involve managers in process and hold them accountable, and utilize validated systems for recruiting.

Analyze employee satisfaction issues and develop a model for transparent corrective actions.

Provide a "roll out" type presentation and utilize inclusive team processes to share the goals of the Human Capital Management Plan with all employees.

Create and implement supporting programs such as Individual Development Plans.

Verification and Validation:

OPM was provided a copy of the Agency's HCMP for comment in 2011; approval pending. The Human Capital Management Report was submitted to OPM.

FY 2011 Annual Performance Goal: Complete implementation of the Homeland Security Presidential Directive (HSPD-12) initiative.

Was the goal achieved? Yes

Results:

The HSPD-12 identification card program was implemented Agency-wide in FY09, and completed in FY11. Integration with the IT security network and physical security has been partially implemented with computer log-on security and building access initiated. A complete shift to authentication using only the HSPD-12 card is underway. SSS coordinated with GSA and DoD to enable local access to create and activate the cards.

Discussion:

The acquisition and activation phase of the HSPD-12 project has been completed. The next phase involves better integration across security networks.

Impact:

All Agency personnel were issued the new HSPD-12 identification cards and have government-wide access.

Planned Actions/ Schedule:

Expand the use of these ID cards to include authentication security for all electronic activity and building access.

Verification/Validation:

Employee feedback.

Objective 3: Efficient and effective financial management:

Strategic Objective 2.3.1. Improve the effectiveness and efficiency of financial activities.

A major focus for the entire Agency is controlling costs. The Agency is committed to achieving a "clean audit" opinion under the auspices of the Accountability of Tax Dollars Act of 2002. In accordance with the PMA, SSS will continue its implementation of an integrated financial management system; it has automated government travel under the eTravel concept During FY 2012 SSS will implement an automated time and attendance record keeping system to further integrate the existing payroll application with financial, acquisition, logistics, and human capital management activities.

FY 2011 Annual Performance Goal: Continue updating the Fiscal Manual.

Was the goal achieved? No

Results:

Completion of Fiscal Manual update: 100%; Actual: 60 %. Financial management is focusing efforts on updating the most critical functions and processes within the Fiscal Manual as identified by finance staff, the external financial auditors, and contracted financial support. Updates are necessary and critical to policies and procedures to ensure management controls are in place.

Discussion:

A completely updated Fiscal Manual is not currently in place. However, this necessary project is now a priority for completion during FY 2012.

Impact:

The Agency continues to operate and function based on the guidelines and rules established in the current FM manual that has been supplemented with several operational directives and procedures. However, most of these procedures have not undergone the complete review process nor been formally incorporated into the Fiscal Manual. An updated FM remains necessary as the “overarching” document that establishes guidelines and procedures for the day-to-day operations.

Planned Actions/Schedule:

The Fiscal Manual will be staffed, updated and comments to be incorporated in the revised/updated version during FY 2012.

Verification and Validation:

Once the Fiscal Manual has been completely updated and published, a periodic review will be performed at least annually. Future changes or adjustments will be incorporated as necessary.

Strategic Objective 2.3.2. Align budgeted funds with performance expectations.

FY 2011 Annual Performance Goal: Continue Performance and Budget integration.

Was the goal achieved? Yes

Results:

The Oracle Federal Financials (OFF) system provides an integrated financial system that ties budget execution to the goals and objectives contained in the Strategic Plan.

Discussion:

The Agency’s budget and strategic planning documents were aligned by organization codes and project codes in accordance with the Strategic Plan. The Agency could properly display execution of resources for the Budget submissions. Restructured accounting codes were implemented, enabling better accountability of operations in support of Strategic goals and initiatives.

Impact:

The Agency’s ability to apply activity-based-costing principles has been achieved. As changes to the Agency’s Strategic Plan occur an adjustment will occur to align the budgetary resources to the Strategic Plan.

Planned Actions/Schedule:

The FM staff worked closely with OFF systems staff to ensure accounting structure met the needs of the Agency. The revised accounting structure will be reviewed and aligned with the new Strategic Plan to ensure that the established Goals and Objectives are aligned with the requested funding in the Agency’s annual budget request.

Verification and Validation:

Financial reports reflect execution alignment with the Agency goals and objectives.

Objective 4: Effective and efficient Information Technology management.

SSS continued to update its technical environment to facilitate meeting the President's e-Government initiative. The Agency's main web site provides several services to the general public such as online registration through which a man can register with Selective Service in real-time. The site also features registration verification allowing an individual to check an existing registration. The Agency provides an interactive voice response (IVR) system allowing a man to register or to check an existing registration via an interactive voice recognition telephone system along with the option of speaking with an operator who can assist with various registration-related issues such as requests for status of information letters.

Information security continued to be a major focus during this fiscal year, and the Agency remains committed to securing and protecting personally identifiable information (PII) it receives from State Department of Motor Vehicles and other sources. SSS completed a project to enable secure connections between outside information sources delivering PII information. Also, the Agency's firewalls and intrusion prevention systems thwarted hundreds of thousands of network-based attacks against the SSS' network.

SSS has implemented virtualization technologies for over 80% of our network servers. These servers were upgraded to better facilitate COOP requirements through improved resources and to facilitate "cloud computing" better. The Agency plans to test workstation virtualization with the goal of increasing network efficiency and management. Most notably, SSS improved its FISMA compliance rating and was also recognized nationally as one of the first Federal agencies to comply with the TIC initiative securing Internet access points for the government.

Strategic Objective 2.4.2: Improve the Effectiveness and efficiency of technical operations.

For FY 2011, the SSS set two performance goals for Strategic Objective 2.3.1.

- Continue the development and implementation of the registration modernization efforts underway.
- Ensure compliance with FISMA requirements and reporting tasks as well as protecting personal identification information entrusted to SSS.

FY 2011 Annual Performance Goal: Continue the development and implementation of the registration modernization.

Was the goal achieved? Yes

Results:

The Agency migrated to a new computer platform as part of its RCV project. The old 1980's era mainframe system was abandoned, and the Agency now has a more modern and capable registrant management system.

Discussion:

The Agency completed its migration of all of its Registration, Compliance, and Verification (RCV) information systems from the U.S. Military Entrance Processing Command mainframe platform to a modern server-based environment. This effort will increase the Agency's technical capabilities and allow seamless integration with the other systems throughout the Agency's Enterprise Architecture, ensuring system compliance with all Federal Security and Information Technology Requirements.

Impact:

The Agency avoided the cost of continuing support of the legacy system, and modernized its registrant management system.

Planned Actions/Schedule:

Although the RCV phase of the initiative is complete, the post-activation programs are next scheduled for conversion. At the end of FY2012, the project will be finished.

Verification and Validation:

Integration Testing, Acceptance Testing as well as Parallel Testing task are planned for FY2012.

FY 2011 Annual Performance Goal: Ensure compliance with FISMA requirements and reporting tasks as well as protecting personal identification information entrusted to SSS.

Was the goal achieved? No

Results:

The FY2011 audit reflected much improved security posture, but two issues remain – these two are accepted risks given operational and budget constraints.

Discussion:

FISMA audits occur each year, and under new SSS and Information Technology leadership, special emphasis was placed upon the corrections of known deficiencies.

Impact:

A significant number of FISMA-related deficiencies, as identified in the discussion above, were eliminated

Planned Actions/Schedule:

Over recent years, every effort – affordable and feasible -- is taken to correct deficiencies noted in the FISMA audits. These endeavors have reduced the FISMA shortfalls to only two outstanding deficiencies repeatedly identified by the external auditors. Phase four of the RCV project is scheduled for completion by the end of FY 2012.

Verification and Validation:

N/A

Objective 5: Effective and efficient management of public communications and registration awareness of Agency programs.

Strategic Objective 2.5.1: Provide accurate communications with diverse customers in a timely manner.

Significant Activity:

During FY 2011, the Agency's Public and Intergovernmental Affairs staff responded to an increasing influx of inquiries, correspondence, and phone calls relating to one's registration status to qualify for an assortment of government benefits and programs. This was driven by the national economic situation, high rate of unemployment, and general movement to retrain and retool one's skills. Additionally, numerous news outlets both print and broadcast, contacted the SSS for general interviews or specific information.

After completing its sixth year of employing the air show platform to convey the Agency's messages to the general public, this program was fully terminated because the registration return on investment was deemed to be not cost-effective

Further, SSS distributed its new radio package, "Important Information for Young Men," with a compilation of 19 radio spot public service announcements in English and Spanish and announcer-read scripts for live radio public service announcements to all major media markets. However, due to a lack of funding, no television public service announcements were produced or distributed again this year. SSS produced public service "news" messages for TV, radio and newspapers. We manned 24 national exhibits; participated in 82 outreach initiatives; and developed social media network internet tools promoting registration.

FY 2011 Annual Performance Goal: Improve response times, in accordance with provisions of the Agency's Administrative Services Manual, for all types of responses: White House, congressional, media, Freedom of Information Act and Privacy Act customers, registrants, and the general public.

Was the goal achieved? Not completely

Results:

Data Management Center -
Registration Processing: Target 18 days; Actual: 21 days
Status Information Letters for Registrants: Target 15 days; Actual: 10 days
Compliance Mailings: Target 10 days; Actual: 14 days
Other Center Mailings: Target 10 days; Actual 20 days

Public & Intergovernmental Affairs (PIA) Directorate -
Assorted Inquiries: Target 10 days; Actual; 2 days
White House Correspondence: Target 5 days; Actual: 1 day
Congressional Inquiries: 10 days; Actual: 2 days or less
Freedom of Information Requests/Privacy Act Correspondence: Target 20 days; Actual: 3 days or less

Discussion:

Response times at the Data Management Center continues to improve. There is a national environment of greater personal verification; more men seek government job training; as baby boomers retire, greater numbers of men seek government employment with required security clearances; as jobs become more complex, further education is necessary; and the number of men seeking U.S. naturalization continues to grow. While all these factors have caused an explosion in registration verification workload, staffing and scheduling solutions were put in place. Consequently, the sizeable workload is being serviced more timely and continues to be reduced.

Concerning the PIA Directorate, internal controls are in place to monitor turn-around times, in addition to customer feedback. Where a feasible management fix is available, it will be evaluated for improvement where economically feasible and practical. .

Impact:

Acceptable customer service levels have been reached in responding to written inquiries generally. The Data Management Center continues to work on improving response time to telephonic inquiries.

Planned Actions/Schedule:

Actively monitor workload for measurable changes; be prepared to adjust staffing and employ other management options.

Verification and Validation:

Statistical reports that measure processing time lines, program evaluations and public feedback.

Financial Details

Message from the Comptroller

Message from the Chief Financial Officer (CFO)

The Agency is committed to fulfilling the requirements of the Government Performance and Accountability Act, the Government Management and Reform Act, and the Federal Manager's Integrity Act.

As the Agency's CFO, I am dedicated to the performance and accountability mandates put forward by the President and Congress. I am also keenly aware of the importance of my fiduciary responsibility to effectively manage taxpayer resources by maintaining strong financial systems and internal controls. This ensures accountability, integrity, and reliability in the Agency's financial management program

For the fourth year in a row, I am pleased to report that as of September 30, 2011, SSS received an unqualified financial audit opinion. In FY 2011, the independent auditors conducted an annual assessment of the Agency's financial management systems and internal control over (1) the effectiveness/efficiency of operations and compliance with applicable laws and regulations, and (2) financial reporting including safeguarding assets and compliance with applicable laws and regulations, in accordance with the requirements of the Office of Management and Budget Circular A-123, "Management's Responsibility for Internal Control."

To ensure compliance with the Federal Managers' Financial Integrity Act and the financial systems requirements of the Federal Financial Management Improvement Act, I remain dedicated to providing sound management of the resources under my stewardship.

Carlo Verdino
Comptroller

Overview of Financial Statements

Purpose of the financial statements

- The Balance sheet shows asset vs. liabilities
- Statement of Net Cost shows the cost of operations
- Statement of Change in Net Position identifies the accounting actions which caused the change in Net Position
- Statement of Budgetary Resources shows how resources were made available during the budget year and the year end status of those resources

Financial Statements

Selective Service System
Balance Sheet
As of September 30, 2011 and 2010

Assets	2011	2010
Intergovernmental Assets:		
Fund Balance with Treasury Note 2	$7,135,620	$8,392,733
Accounts and Interest Receivable	-	-
Total Intragovernmental Assets	$7,135,620	$8,392,733
Accounts Payable, Net Note 3	$640	$9,712
General Property, Plant, and Equipment, Net Note 4	$9,113,905	$5,150,921
Total Assets	$16,250,165	$13,553,366
Liabilities	**2011**	**2010**
Intragovernmental Liabilities		
Accounts Payable Notes 7	$1,062,989	$848,225
Other		
Employer Contributions and Payroll Taxes Payable Note 7	$124,682	$131,499
Unfunded FECA Liability Note 5, 6 and 7	$531,401	$522,886
Other Unfunded Employment Related Liability	$7,985	-
Total Intragovernmental Liabilities	$1,727,057	$1,502,610
Accounts Payable Note 7	$700,996	$847,654
Federal Employee and Veteran Benefits Note5, 6 and 7	$2,539,060	$2,579,475
Other		
Accrued Funded Payroll and Leave Note 7	$593,549	$608,867
Employer Contributions and Payroll Taxes Payable	$15,320	$968
Unfunded Leave Notes 5 and 7	$817,710	$908,031
Total Liabilities	$6,306,701	$6,447,605
Net Position	**2011**	**2010**
Unexpanded Appropriations - Other Funds	$4,635,083	$5,955,522
Cumulative Results of Operations - Other Funds	$5,218,380	$1,150,239
Total Net Position	$9,853,463	$7,105,761
Total Liabilities and Net Position	$16,250,163	$13,533,366

The accompanying notes are an integral part of these statements.

Statements of Net Cost of Operations

For the Years Ended September 30, 2011 and 2010

Program Costs	2011	2010
Gross Costs Note 8	$24,283,109	$24,134,640
Less: Earned Revenue Note 9	($369,252)	($369,245)
Net Cost of Operations	$23,913,857	$23,765,395

Statements of Budgetary Resources

For the Years Ended September 30, 2011 and 2010

Budgetary Resources	2011	2010
Unobligated Balance, Brought Forward, October 1	$2,329,980	$5,346,453
Recoveries of Prior Year Unpaid Obligations	$880,929	$748,972
Budget Authority		
Appropriation	$24,275,000	$24,275,000
Spending Authority from Offsetting Collections (Gross)		
Earned		
Collected	$454,574	$374,759
Subtotal	$27,322,648	$30,745,184
Permanently Not Available	($617,835)	($3,346,884)
Total Budgetary Resources	$27,322,648	$27,398,300
Status of Budgetary Resources	**2011**	**2010**
Obligations Incurred		
Direct	$24,109,439	$24,699,074
Reimbursable	$369,252	$369,246
Subtotal	$24,478,891	$25,068,320
Unobligated Balance Available		
Apportioned	$7,870	$4,230
Subtotal	$7.870	$4.230
Unobligated Balance Not Available	$2,836,087	$2,325,750
Total Status of Budgetary Resources	$27,322,648	$27,398,300

Changes In Obligated Balance	2011	2010
Obligated Balance, Net		
Unpaid Obligrations, brought forward, October 1	$6,062,752	$5,140,924
Total Unpaid Obligated Balances, Net	$6,062,752	$5,140,924
Obligations Incurred, Net	$24,478,691	$25,068,320
Gross Outlays	($25,368,851)	($23,397,520)
Recoveries of prior year unpaid obligations, actual	($880,929)	($748,972)
Obligated Balance, Net, End of Period		
Unpaid Obligations	$4,291,663	$6,062,752
Total Unpaid Obligated Balances, Net, end of period	$4,291,663	$6,062,752

Net Outlays	2011	2010
Gross Outlays	$25,368,851	$23,397,520
Offsetting Collections	($454,574)	($374,759)
Distributed Offsetting Receipts	-	-
Net Outlays	$24,914,277	$23,022,761

The accompanying notes are an integral part of these statements.

Statements of Changes in Net Position

For the Years Ended September 30, 2011 and 2010

Cumulative Results of Operations	2011	2010
Beginning Balance	$1,150,239	($496,658)
Adjustments	-	-
Beginning Balance, as adjusted	$1,150,239	($496,658)
Budgetary Financing Sources		
Appropriations Used	$24,977,602	$22,657,046
Other Financing Sources (Non-Exchange)		
Inputed Financing	$3,004,396	$2,755,246
Total Financing Sources	$27,981,998	$25,412,292
Net Cost of Operations	($23,913,857)	($23,765,395)
Net Change	$4,068,141	$1,646,697
Cumulative Results of Operations	$5,218,380	$1,150,239
Unexpended Appropriations	**2011**	**2010**
Beginning Balance	$5,955,522	$7,684,452
Adjustments	-	-
Beginning Balance, as Adjusted	$5,955,522	$7,684,452
Budgetary Financing Sources		
Appropriation Recieved	$24,275,000	$24,275,000
Other Adjustments	($617,835)	($3,346,884)
Appropriations Used	($24,977,602)	($22,657,046)
Total Budgetary Financing Resources	($1,320,439)	($1,728,930)
Total Unexpended Appropriations	$4,635,083	$5,955,522
Net Position	$9,853,463	$7,105,761

The accompanying notes are an integral part of these statements.

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Selective Service System (SSS) is an independent Federal agency, operating with permanent authorization under the Military Selective Service Act. SSS is not part of the Defense Department; however, it exists to serve the emergency manpower needs of the Defense Department, if a draft is necessary.

The Agency's mission is twofold: (1) provide manpower to the armed forces in an emergency; and (2) run an Alternative Service Program for registrants classified as conscientious objectors. The Alternative Service Program would provide public work assignments in America's communities in lieu of military service.

SSS' structure consists of the National Headquarters, Data Management Center, and three Regional Headquarters. The SSS workforce includes full-time permanent employees, part-time employees (state directors), volunteers (local board members), and military reservists. State Directors, Local Board Members and Military Reservists are the Agency's standby components. They serve part-time for the Agency, remaining trained and ready to be called into service in the event of a draft.

The Agency remains ready to implement a draft of untrained manpower, or personnel with professional health care or special skills, if directed by the Congress and the President to do so in a national crisis.

B. Basis of Accounting and Presentation

The financial statements present the financial position, net cost of operations, changes in net position, and budgetary resources in accordance with U. S. Generally Accepted Accounting Principles (GAAP) and Financial Reporting Requirements of the Office of Management and Budget (OMB) prescribed in OMB Circular A-136, Financial Reporting Requirements (as revised September 29, 2010).

They have been prepared from the books and records of the SSS and include accounts of all funds under the control of the SSS. Accounting principles generally accepted in the United States encompass both accrual and budgetary transactions. Under the accrual method, revenue is recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of federal funds. The accompanying financial statements are prepared on the accrual basis of accounting.

C. Budget Authority

The Congress passes appropriations annually that provide SSS with authority to obligate funds for necessary expenses to carry out mandated program activities. SSS performs reimbursable services for another Federal entity which reimburses SSS for the full costs of performing this service.

Annual appropriations are used, within statutory limits, for operating and capital expenditures for essential personal property. Also, SSS places internal restrictions on fund expenditures to ensure the efficient and proper use of all funds.

D. Fund Balance with Treasury

Fund balances with Treasury primarily represent appropriated funds that are available to pay current liabilities and finance authorized purchase obligations. See Note 2 for additional information.

E. Accounts Receivable

Accounts Receivable consists of amounts due from other federal entities, current and former employees, and vendors. Gross receivables are reduced to Net Realizable value by an allowance for uncollectible accounts. See Note 3 for additional information.

F. Property, Plant, and Equipment

The basis for recording purchased general Property, Plant, and Equipment (PPE) is full costs, including all costs incurred to bring the PP&E to and from a location suitable for its intended use. The SSS PP&E consists of equipments, software, and internal use software in development. SSS' policy is to capitalize individual purchases of property and equipment with a cost of $10,000 or more and a useful life of at least three years. The dollar threshold for capitalization of bulk purchases is $50,000. Assets are depreciated using straight-line method of depreciation with useful lives ranging from three to seven years. See Note 4 for additional information.

G. Accrued Liabilities and Accounts Payable

Accrued Liabilities and Accounts Payable represent a probable future outflow or other sacrifices of resources as a result of past transactions or events. Liabilities are recognized when incurred, regardless of whether they are covered by budgetary resources. Liabilities cannot be liquidated without legislation that provides resources to do so. Also, the government, acting in its sovereign capacity, can abrogate SSS liabilities. See Note 5 for information on "Liabilities Not Covered by Budgetary Resources" for information on Accounts Payable.

H. Accrued Workers Compensation and Other Actuarial Liabilities

Federal Employees' Compensation Act (FECA) provides income and medical cost protection to cover federal civilian employees injured on the job, employees who have incurred a work-related injury or occupational disease, and to pay beneficiaries of employees whose deaths are attributable to job-related injuries or occupational disease. The FECA program is administered by the United States Department of Labor (DOL), which pays valid claims and subsequently seeks reimbursement from the Selective Service System for these paid claims. See Note 6 for additional information.

The FECA liability is based on two components. The first component is based on actual claims paid by DOL but not yet reimbursed by the SSS. There is generally a two-to-three-year time period between payment by DOL and reimbursement to DOL by the Selective Service System. The second component is the actuarial liability, which estimates the liability for future payments as a result of past events. The actuarial liability includes the expected liability for death, disability, medical, and miscellaneous cost for approved compensation cases.

I. Pension Costs, Other Retirement Benefits, and other Post Employment Benefits

SSS recognizes the full costs of its employees' pension benefits. However, the liabilities associated with these costs are recognized by the Office of Personnel Management (OPM) rather than SSS.

Most employees hired prior to January 1, 1984; participate in the Civil Service Retirement System (CSRS) to which SSS contributes 7% of salaries for regular CSRS employees.

On January 1, 1987, the Federal Employees Retirement System (FERS) went into effect pursuant to Public Law 99-335. Employees hired after December 31, 1983, are automatically covered by FERS and Social Security. A primary feature of FERS is that it offers a savings plan to which SSS automatically contributes 1% of base pay and matches any employee contributions up to an additional 4% of base pay. For most employees hired after December 31, 1983, SSS also contributes the employer's matching share for Social Security.

Similar to federal retirement plans, OPM rather than the SSS, reports the liability for future payments to retired employees who participate in the Federal Employees Health Benefit Program (FEHBP) and the Federal Group Life Insurance Program (FEGLIP). SSS reports the full cost of providing other retirement benefits. The SSS also recognizes an expense and liability for other post employment benefits (OPEB), which includes all types of benefits provided to former or inactive (but not retired) employees, their beneficiaries, and covered dependents. During fiscal years 2011 and 2010, the cost factors relating to FEHBP were $6,027 and $5,906 respectively, per employee enrolled. During fiscal years 2011 and 2010, the cost factor relating to FEGLI was .02% of basic pay per employee enrolled.

J. Annual, Sick, and Other Leave

Annual leave is accrued when earned and reduced as leave is taken. The balance in the accrued leave account is calculated using current pay rates. Sick leave and other types of non-vested leave are charged to operating costs as they are used.

K. Imputed Costs/ Financing Sources

Federal Government entities often receive goods and services from other Federal Government entities without reimbursing the providing entity for all the related costs. These constitute subsidized costs which are recognized by the receiving entity. SSS recognized imputed costs and financing sources in fiscal years 2011 and 2010 to the extent directed by the OMB, such as: employees' pension, post-retirement health and life insurance benefits; other post-employment benefits for retired, terminated, and inactive employees, which include unemployment and workers compensation under the Federal Employees Compensation Act (FECA) and losses in litigation proceedings. In addition, SSS recognized imputed cost for services received from other Federal agencies without reimbursement; these services included office space for DMC and Region I and Reserve Force Officer (RFO) services from the U.S. Army Reserves, the U.S. Marine Corps Reserves, the U.S. Navy Reserves and the Army National Guard.

L. Revenues and Other Financing Sources

SSS' activities are financed either through exchange revenue it derives from other Federal government entities or through appropriations. A reimbursable agreement with the Department of Defense provides the exchange revenue which is recognized when earned; i.e. services have been rendered. Appropriations used are recognized as financing sources when related expenses are incurred or assets purchased. SSS also incurs certain costs that are paid in total or in part by other Federal entities, such as pension costs. These subsidized costs are recognized on the Statement of Net Cost and imputed financing for these costs is recognized in the Statement of Changes in Net Position. As a result, there is no effect on Net Position.

M. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

N. Expired Accounts and Canceled Authority

SSS receives an annual appropriation, which unless otherwise specified by law, expires for incurring new obligations at the end of the fiscal year that the funds were appropriated. For the subsequent five fiscal years, the expired funds are available to liquidate valid obligations incurred during the unexpired period. Obligations incurred during the unexpired period but not previously reported may be adjusted upwards or downwards. At the end of the fifth expired year, the expired account is canceled and any remaining funds are returned to Treasury.

Note 2: Fund Balance with the U.S. Treasury

Fund balances with Treasury consisted of the following at September 30, 2011 and 2010

Fund Balances	2011	2010
Appropriated Funds (General)	$7,135,620	$8,392,733
Total Fund Balance with Treasury	$7,135,620	$8,392,733
Status of Fund Balance with Treasury		
Unobligated Balance		
Available	$7,870	$4,230
Unavailable	$2,836,087	$2,325,751
Obligated Balance Not Yet Disbursed	$4,291,663	$6,062,752
Total Status of Fund Balance with Treasury	$7,135,620	$8,392,733

U.S. Government cash is accounted for on an overall consolidated basis by Treasury. The amounts shown on the Balance Sheets represent SSS' right to draw on Treasury for valid expenditures. The fund balance as shown on SSS' records are reconciled monthly with Treasury's records.

Note 3: Accounts Receivable, Net

Due from the Public, Net. Accounts receivable due from the Public generally is related to employee payroll debt. Substantial receivables related to current employees are considered to be collectible, as there is no credit risk. Allowance for doubtful accounts is used only in instances where an employee has separated from duty prior to collection of their debt. Selective Service System takes its aged schedule of Accounts Receivable due from the Public and applies different rates, depending on the ages of the accounts receivable, to calculate allowances for uncollectible accounts. Selective Service System applies a 50% rate to the current uncollectible balances that are less than 366 days old and 100% rate to balances that are more than 365 days old.

Accounts Receivable From the Public	2011	2010
Current		
1 - 180 Days Past Due	-	$16
181 - 365 Days Past Due	$1,281	$6,999
1 to 2 Years Past Due	$3,331	$2,724
Over 2 Years Past Due	$1,538	-
Total Billed Accounts Receivable - Public	$6,150	$9,739
Unbilled Accouts Receivable	-	-
Total Accounts Receivable - Public	$6,150	$9,739
Allowance for Doubtful Accounts - Public	($5,510)	($27)
Total Accounts Receivable - Public, Net	$640	$9,712

Note 4: Property, Plant, and Equipment; Net

SSS policy is to capitalize individual purchases of property and equipment with a cost of $10,000 or more and a useful life of at least three years. The dollar threshold for capitalization of bulk purchases is $50,000. Assets are depreciated using straight-line method of depreciation with useful lives ranging from three to seven years. Additionally, internal use software development and acquisition costs of $10,000 or greater are capitalized as software development in progress until the development stage has been completed and the software successfully tested. Upon completion and testing, software development-in-progress costs are reclassified as internal use software costs and amortized using the straight-line method over the estimated useful life of seven years. Purchased commercial software that does not meet the capitalization criteria is expensed. Capitalized property and equipment, net of accumulated depreciation, consisted of the following as of September 30, 2011 and 2010:

	Service Life	Acquisition Value	Accumulated Depreciation	2011 Net Book Value	2010 Net Book Value
Equipment	3-7 Years	$921,718	($438,585)	$483,133	$264,043
Information Technology Software	3 Years	$1,135,938	($801,160)	$334,778	$388,016
Information Technology Software	7 Years	$8,295,994	-	$8,295,994	-
Internal Use Software	7 Years	-	-	-	$4,498,862
Total		$10,353,650	($1,239,745)	$9,113,905	$5,150,921

Note 5: Leases

The liabilities on Selective Service System's Balance Sheet as of September 30, 2011, include liabilities not covered by budgetary resources, which are liabilities for which Congressional action is needed before budgetary resources can be provided. Although future appropriations to fund these liabilities are likely and anticipated, it is not certain that appropriations will be enacted to fund these liabilities. The composition of liabilities not covered by budgetary resources as of September 30, 2011 and 2010 is as follows:

	2011	2010
Intragovernmental		
Unfunded Payroll Liabilities	$531,401	$522,886
Total Intragovernmental	$531,401	$522,886
Public Liabilities		
Federal Employee and Veteran Benefits - FECA Actual	$2,539,069	$2,579,475
Unfunded Annual Leave	$817,710	$908,031
Other Unfunded Employment Related Liability	$7,985	-
Total Liabilities Not Covered by Budgetary Resources	$3,896,165	$4,010,392
Total Liabilities Covered By Budgetary Resources	$2,500,536	$2,437,213
Total Liabilities	$6,396,701	$6,447,605

B. Other Information

Unfunded Payroll Liabilities consists of workers' compensation claims payable to the Department of Labor (DOL), which will be funded in a future period, and an unfunded estimated liability for future workers' compensation claims based on data provided from the DOL. The actuarial calculation is based on benefit payments made over 12 quarters, and calculates the annual average of payments. For medical expenses and compensation this average is then multiplied by the liability-to-benefit paid ratio for the whole FECA program.

Unfunded Annual Leave represents a liability for earned leave and is reduced when leave is taken. At year end, the balance in the accrued annual leave account is adjusted to reflect the liability at current pay rates and leave balances. Accrued annual leave is paid from future funding sources and, accordingly, is reflected as a liability not covered by budgetary resources. Sick and other leave are expensed as taken.

All other liabilities are considered to be covered by budgetary resources.

Note 6: Federal Employees' Compensation Act

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to covered Federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. Claims incurred for benefits for SSS employees under FECA are administered by the Department of Labor (DOL) and are paid, ultimately, by SSS.

For 2010, and again in 2011, SSS used estimates provided by DOL to report the FECA liability. This practice is consistent with the practices of other Federal agencies.

SSS recorded an estimated actuarial liability for future costs that represent the expected liability for approved compensation cases beyond the current fiscal year. This estimated actuarial liability of $2,539,069 and $2,579,475 as of September 30, 2011 and 2010, respectively, is reported on SSS' Balance Sheet. SSS also recorded a liability for amounts paid to claimants by DOL as of September 30, 2011 and 2010, of $531,401 and $522,886, respectively, but not yet reimbursed to DOL by SSS.

Note 7: Leases

The Selective Service System leases office and storage space from commercial vendors and the General Service Administration (GSA). In addition, SSS rents copiers and other office equipment from commercial vendors and vehicles from GSA and commercial vendors. With the exception of the commercial leases on two office buildings (Colorado and Georgia) and the occupancy agreement (OA) with GSA (Virginia), all rentals are one-year. Because these rentals are considered cancelable, minimum lease payments due are restricted to the two commercial leases and the OA with GSA. Selective Service System has executed three long-term leases for office space. The three leases are as follows: (1) Region II Headquarters in Smyrna, Georgia, (2) Region III Headquarters in Denver, Colorado, and (3) National Headquarters in Arlington, Virginia.

The lease for the Region II Headquarters space is a ten-year lease initiated in January 2004 and expiring in January 2014. The annual rent of $69,654 in 2004 escalates between 6% and 4% each year to $105,820 in 2014.

The lease for the Region III Headquarters is a five-year lease initiated in January 2006 and extended in September 2010 to expire December 31, 2015. The annual rent of $94,023 has no escalation charge. However, the lease requires payment of the pro rata share of expenses related to operating, maintaining, repairing and managing the property. In 2011 the monthly cost for the Region III lease is $7,835. Office space for National Headquarters is obtained from General Services Administration (GSA) via an Occupancy Agreement (OA) which expires in October 2013. The base year rent of $525,462 can escalate from 5% to 10% each year for anticipated increases in operating costs.

Fiscal Year	2011	2010
2011		$741,436
2012	$752,049	$752,049
2013	$762,862	$762,862
2014	$172,020	$172,020
2015	$94,023	$94,023
2016	$23,506	$23,506
Total Future Lease Payments	$1,804,460	$2,545,896

Note 8: Intragovernmental Costs

Interngovernmental Costs	2011	2010
Intragovernmental Costs	$12,012,888	$8,710,278
Public Costs	$12,270,221	$15,424,362
Total Program Costs	$24,283,109	$24,134,640
Intragovernmental Earned Revenue	$369,252	$369,245
Public Earned Revenue	-	-
Total Program Earned Revenue	$369,252	$369,245

Intragovernmental costs are those expenses paid by SSS to other federal government entities. They include, but are not limited to, the U.S. Postal Service, the Office of Personnel Management, the U. S. Navy, the Department of Defense, the Department of the Interior, General Services Administration, Government Printing Office, and Great Lakes Naval Station Public Works. Public costs are expenses paid to all other entities, to include state and local governments and the general public. All earned revenue was with other federal government agencies. Exchange revenues (See Note 9) are those that derive from transactions in which SSS is reimbursed for services performed for other Federal agencies.

Note 9: Exchange Revenue

The Statement of Federal Financial Accounting Standards (SFFAS) No. 7, Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting, defines exchange revenue as inflows of resources to a governmental entity that the entity has earned. They arise from exchange transactions that occur when each party to the transaction sacrifices value and receives value in return. Exchange revenue is earned for services provided to other government agencies through reimbursable agreements. SSS recovers the full cost of services. Amounts are earned at the time the expenditures are incurred against the reimbursable order. During fiscal years 2011 and 2010, SSS earned $369,252 and $369,245 under an agreement with the U.S. Department of Defense. The DoD reimburses SSS for the difference in postage cost between what SSS currently paid to mail Acknowledgments and what it would cost to include DoD materials in the SSS Acknowledgments. SSS is also reimbursed for the difference between what they were paying to lease equipment for the mailing and the increase in lease costs for the additional equipment necessary to insert the materials for DoD.

Note 10: Undelivered Orders at the End of the Period

Undelivered orders are purchase orders issued by SSS during Fiscal Year 2011 or Fiscal Year 2010 that have not had delivery of required product or service as of September 30, 2011 or 2010, respectively. It is anticipated that these undelivered items will be provided in future periods and will require resources obligated during Fiscal Year 2011 or Fiscal Year 2010.

	2011	2010
Undelivered Orders	$1,791,127	$3,625,542
Total Undelivered Orders	$1,791,127	$3,625,542

Note 11: Explanation of Differences Between the SBR and the Budget

SFFAS No. 7 calls for explanation of material differences between amounts reported in the Statement of Budgetary Resources (SBR) and the actual balances published in the Budget of the United States Government (President's Budget). The President's Budget with the actual FY 2010 amounts was released in February 2011, and the President's Budget with the FY 2011 amounts is estimated to be released in February 2012, and both can be located at the OMB Web site (http://www.whitehouse.gov/omb). As such, the actual amounts for FY 2011 in the President's Budget have not been published at the time these financial statements were prepared.

A comparison of FY 2010 Statement of Budgetary Resources to the President's Budget is shown in the following table:

FY 2010	Budgetary Resources (Millions)	Obligations Incurred (Millions)	Net Outlays (Millions)
Combined Statement of Budgetary Resources	$27	$25	$23
Unobligated Balance Not Available	($3)	-	-
Total Adjusted Balance	$24	$25	$23
Budget of the U.S. Government[1]	$24	$25	$23
Difference[2]	($-)	($1)	-

1. Unobligated balances not available are not included in the amounts presented in the President's budget.
2. Rounding issue exists between the adjusted balance and the President's budget.

Note 12: Reconciliation of Net Costs to Budget (Statement of Financing)

Details of the relationship between budgetary resources obligated and the net costs of operations for the fiscal year 2011 and fiscal year 2010 quarters that ended September 30 are shown in the table below.

For the Periods Ended September 30, 2011 and 2010

Budgetary Resources Obligated	2011	2010
Obligations Incurred	$24,478,691	$25,068,319
Less: Spending Authority from Offsetting Collections and Recoveries	($966,252)	($748,972)
Obligations Net of Offsetting Collections and Recoveries	$23,512,439	$24,319,347
Less: Offsetting Receipts ($369,252)	($374,759)	
Net Obligations $23,143,187	$23,944,588	
Imputed Financing from Costs Absorbed by Others	$3,004,396	$2,755,246
Other	$0	$0
Net Other Resources Used to Finance Activities	$3,004,396	$2,755,246
Total Resources Used to Finance Activities	$26,147,584	$26,699,834
Resources Used to Finance Items Not Part of the Net Cost of Operations		
Change in Undelivered Orders	($1,834,415)	$1,287,543
Resources that Fund Expenses Recognized in Prior Periods		
Resources that Finance the Acquisition of Assets or Liquidations of Liabilities	$3,980,493	$1,890,525
Other Resources that do not Affect Net Cost of Operations	$0	$0
Total Resources Used to Finance Items not Part of the Net Cost of Operations	$2,146,078	$3,178,068
Total Resources Used to Finance the Net Cost of Operations	$24,001,506	$23,521,766
Components Requiring or Generating Resources in Future Periods		
Increase/Decrease in Annual Leave Liability	($90,321)	($39,139)
Increase in Exchange Revenue Receivable from the Public	$3,589	$12,633
Other	$0	$0
Total Cost that will Require or Generate Resources in Future Periods	($86,733)	($26,506)
Components Not Requiring or Generating Resources		
Depreciation and Amortization	$444,725	$210,185
Revaluation of Assets or Liabilities	($427,216)	$0
Bad Debt	$5,482	$27
Other (Unfunded Leave and FECA Actuarial)	($23,906)	$59,923
Total Components of Net Cost that will not Require or Generate Resources	($916)	$270,135
Total Components of Net Cost that will not Require	($87,648)	$243,629
Net Cost of Operations	$23,913,857	$23,765,395
Statement of Net Cost	$23,913,857	$23,765,395

Report of Independent Auditors

Selective Service System

Audit of Financial Statements

As of and for the Years Ended
September 30, 2011 and 2009

Submitted by
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Certified Public Accountants & Management Consultants

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Independent Auditor's Report

We have audited the balance sheets of the Selective Service System (SSS) as of September 30, 2011 and 2010, and the related statements of net cost, changes in net position, and budgetary resources (the financial statements) for the years then ended. The objective of our audit was to express an opinion on the fair presentation of those financial statements. In connection with our audit, we also considered the SSS's internal control over financial reporting and tested the SSS's compliance with certain provisions of applicable laws and regulations that could have a direct and material effect on its financial statements.

SUMMARY

As stated in our opinion on the financial statements, we found that the SSS's financial statements as of and for the years ended September 30, 2011 and 2010, are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America.

Our consideration of internal control would not necessarily disclose all deficiencies in internal control over financial reporting that might be material weaknesses under standards issued by the American Institute of Certified Public Accountants. However, our testing of internal control identified no material weaknesses in financial reporting.

The results of our tests of compliance with certain provisions of laws and regulations disclosed no instances of noncompliance that is required to be reported herein under *Government Auditing Standards*, issued by the Comptroller General of the United States and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements* (as amended).

The following sections discuss in more detail our opinion on the SSS's financial statements, our consideration of the SSS's internal control over financial reporting, our tests of the SSS's compliance with certain provisions of applicable laws and regulations, and management's and our responsibilities.

Opinion on the Financial Statements

We have audited the accompanying balance sheets of the SSS as of September 30, 2011 and 2010, and the related statements of net cost, changes in net position, and budgetary resources for the years then ended.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position, net cost, changes in net position, and budgetary resources of the SSS as of and for the years ended September 30, 2011 and 2010 , in conformity with accounting principles generally accepted in the United States of America.

The information in the Management's Discussion and Analysis section is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America or OMB Circular A-136, *Financial Reporting Requirements*. We have applied certain limited procedures, which consisted principally of inquiries of SSS management regarding the methods of measurement and presentation of the supplementary information and analysis of the information for consistency with the financial statements. However, we did not audit the information and express no opinion on it. The Performance and Accountability Report, except for Management's Discussion and Analysis, is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements of the SSS as of and for the years ended September 30, 2011 and 2010 , in accordance with auditing standards generally accepted in the Unites States of America, we considered the SSS's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the SSS's internal control. Accordingly, we do not express an opinion on the effectiveness of the SSS's internal control.

Because of inherent limitations in internal controls, including the possibility of management override of controls, misstatements, losses, or noncompliance may nevertheless occur and not be detected. A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance of the SSS.

Our consideration of internal control was for the limited purpose described in the first paragraph in this section of the report and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

Findings and Recommendations

1. **<u>Financial Reporting Controls Need Further Strengthening</u>**

SSS has strengthened internal controls over financial reporting, but additional actions are necessary to ensure that the agency's internal controls meet OMB and Government Accountability Office (GAO) requirements. As a result, we identified issues that impacted the financial statements, and puts financial reporting at additional risk until actions are taken to fully remediate the problems discussed below.

OMB Circular A-136, *Financial Reporting Requirements*, states reporting entities should ensure that information in the financial statements is presented in accordance with Generally Accepted Accounting Principles for Federal entities, and also provides that each agency Chief Financial Officer (CFO) should prepare a policy bulletin or guidance memorandum guiding agency fiscal and management personnel in the preparation of the annual financial statements. The GAO, *Standards for Internal Controls in the Federal Government*, provides that internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination. The documentation should appear in management directives, administrative policies, or operating manuals. All documentation and records should be properly managed and maintained.

a. Controls over Accruals of Accounts Payables Need Strengthening

During our interim testing, we identified that SSS had not accrued accounts payable for all vendors that had provided goods and services to SSS during the fiscal year. In addition, Office of the Chief Financial Officer (OCFO) officials advised us that they had identified an error in the process followed to accrue accounts payable for military services. As a result, current and prior years' financial statements were misstated because accounts payables and related costs were not correctly estimated.

Statement of Federal Financial Accounting Standards (SFFAS) No.1, *Accounting for Selected Assets and Liabilities*, provides guidance on the accounting for liabilities and the accruals required for these type accounts. SFFAS No. 1 provides that for financial reporting purposes, liabilities are recognized when goods and services are received, or are recognized based on an estimate of work completed under a contract or agreement.

Our tests of accounts payable disclosed that SSS had not properly accrued accounts payable as required by the accounting standards. For example, our tests identified a contractor that had provided services, and had billed SSS for these services shortly after the end of the third quarter. The bill totaled approximately $600,000 and was for services provided to SSS prior to June 30. However, this amount was not included in SSS's June 30 accruals. In addition, when we discussed this vendor's billing process with a SSS official, we were advised that the contractor does not bill SSS until services for a task are completed. Therefore, SSS's accrual should have been for an estimate of work completed under the contract, which included the $600,000 actually billed and an additional estimate of services completed but not yet billed.

During our testing of military services billings, we were advised by OCFO officials that they had determined the process followed by SSS to accrue amounts due military services was flawed. This problem resulted in misstatements in the 2009 and 2010 financial statements, and the interim 2011 financial statements. SSS officials advised us that while individual accruals were made for each of the military services providing personnel to SSS; the agency also erroneously accrued the full remaining amount of unliquidated obligations after the accruals were made. This resulted in the accruals of accounts payables to be overstated at year-end, and understated in the following fiscal year.

To determine the impact of this error, we requested OCFO officials to prepare a detailed analysis showing the amount of the error in each fiscal year, and to compare the accruals to the payments made, in order to determine the actual impact to the financial statements. OCFO officials provided us with the requested information, and we assessed what, if any, impact the errors had on the prior years' financial statements. Our analysis of the data showed that while internal control weaknesses existed, the actual net impact to the prior years' financial statements did not result in material misstatements.

b. Fiscal Manual Needs to be Completed

SSS's Fiscal Manual and related Agency Directives provide general guidance on funds control, and the processing of accounting transactions in the accounting system. However, as reported in our prior year's report, the procedures do not fully meet the OMB and GAO requirements that agencies must document the processes and controls used in the preparation of the annual financial statements, and other internal controls and operating processes. As a result, SSS has not fully met OMB requirements, and the absence of these operating directives and internal controls contributed to the problems discussed in this report.

OMB Circular A-136 states the CFO should publish guidance to assist agency fiscal and management personnel in the preparation of annual financial statements. In addition, the Government Accountability Office, *Standards for Internal Control in the Federal Government*, provides that internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination. The documentation should appear in management directives, administrative policies, or operating manuals and may be in paper or electronic form. All documentation and records should be properly managed and maintained.

We reviewed the SSS Fiscal Manual, and other operational guidance and directives during our audit as part of our 2011 financial audit, and to follow-up on problems identified in our prior audit. We found that some sections of the manual had been updated since our 2010 audit, to include chapters 1, 2, and 6. However, for other key sections of the manual, no updates had been made. Details follow:

SSS Fiscal Manual Section	LSC Comments
Chapter 3 – Travel	This chapter was last updated in 1989.
Chapter 4 – Voucher Examination and Related Fiscal Activities	This chapter was last updated in 1987.
Chapter 5 – Accounting Records and Procedures	This chapter was last updated in 1987.
Financial Statement Compilation Guide	SSS indicated that the guide was in draft and the structure and most parts have been put into use during FY 2011. However, the formal development of the guide for review and approval is not yet completed. It is anticipated that the guide would be issued in early FY 2012.
Funds Control Manual	Drafted and provided to OMB.

OCFO officials advised us that the agency is in the process of updating the Fiscal Manual, and most of SSS Fiscal Manual updates have been drafted but need to be finalized and approved for publication.

c. Separation of Duties Controls Need Strengthening

SSS needed to strengthen controls relating to separation of duties. Our testing of disbursements and supporting documentation showed that in most instances the same individual completed the requisition, requested the bids, selected the vendor, and received the order. Further testing disclosed, however, that while that same individual provided a receiving report to the accounting office for payment, the procurement office had additional records that showed another person had signed as receiving the property.

SSS Fiscal Manual Chapter 1 states that the requisitions created in Oracle required a supervisory approval. In addition, the manual provides that "good internal controls require that one individual does not have the ability to control the entire transaction." The manual also states that individual should not have authorities in Oracle to approve a requisition and to make purchases.

In addition, the Government Accountability Office (GAO), Standards for Internal Control in the Federal Government, dated November 1999, states: "Key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets. No one individual should control all key aspects of a transaction or event."

Without proper controls over segregation of duties, there is increased risk that goods may be ordered and received by the same individual and that fraudulent activity could occur. We discussed the procurement process with the contracting officer and reviewed the documentation provided to the accounting office to support the payments tested. We found that additional documentation supporting that the purchases were received by a third party was maintained by the procurement office. However, this documentation was not provided to the accounting office to support payment of the invoices.

SSS officials advised us that they agreed that this procedure needed improvement to ensure that goods and services have been received by appropriate individuals.

d. Full Costing of Services Should be Accumulated and Reported

SSS does not have a cost accounting system, or appropriate cost finding techniques that provides full cost reporting for services provided to the Department of Defense (DOD). We attributed this problem to SSS officials not developing a cost accounting system or adopting other costing methodologies to determine full costs. As a result, SSS officials are not aware of the full costs of operations and projects, and SSS does not currently meet FASAB requirements or OMB reporting requirements.

Paragraph 46 (c) of SFFAS No. 7 states that each agency that provides goods or services to the public or another Government entity should disclose the nature of intragovernmental exchange transactions in which the entity provides goods or services at a price less than the full cost, or does not charge a price at all, with explanations of the amount and reason for disparities between the billing (if any) and the full cost.

SFFAS No. 4 states "Requirement for cost accounting - Each reporting entity should accumulate and report the costs of its activities on a regular basis for management information purposes. Costs may be accumulated either through the use of cost accounting systems or through the use of cost finding techniques. The cost assignments should be performed using the following methods listed in the order of preference: (a) directly tracing costs wherever feasible and economically practicable, (b) assigning costs on a cause-and effect basis, or (c) allocating costs on a reasonable and consistent basis." Paragraph 38 provides that management needs to be aware of the difference between cost and price even if fees or reimbursements do not recover the full costs due to policy or economic constraints.

We obtained documentation for portions of fiscal years 2007 through 2011, and determined that the amounts of the agreements and revenues were as follows:

Fiscal Year	Amount of Agreement	Total Funds Received
2011	$370,000	247,851[1]
2010	$370,000	369,245
2009	Documentation not available.	351,316
2008		354,719
2007		334,110

In documentation provided by the OCFO personnel, we found an August 2000 letter from SSS to the Director, Defense Management Data Center. The letter discusses the mailing of DOD brochures, and an estimated cost for fiscal year 2000 of approximately $65,000, and annually thereafter of approximately $467,000. The letter lists several cost items to arrive at the $467,000 estimate. However, we were unable to obtain any information that would provide additional details on the costing methodology followed for this agreement.

At our request, OCFO personnel provided us with a spreadsheet to support the costs relating to the DOD billings for 2011. The spreadsheet showed the types of mailings, the volumes of the mailings, a standard unit postage cost, lease costs and quarterly and cumulative costs of the mailings made for DOD. There was no documentation of other costs, including overhead that would have been incurred in the mailing of the documents for the DOD.

We had previously reported this problem to SSS in our 2008 financial statement audit. Our 2008 audit found that SSS had not implemented a cost accounting system and relied on costing methods that did not meet FASAB standards. We recommended that: (1) SSS establish a project to identify services provided to other entities, and determine whether full cost information is provided; and (2) that SSS use FASAB statements and interpretations to develop plans to ensure SSS requirements. The Director, SSS in a November 3, 2008, letter concurred with the findings and recommendations contained in the audit report.

[1] Amount reflects revenues through June 30.

In discussions with OCFO officials on this issue, we were advised that it would be more cost effective for SSS to use cost finding techniques over developing a cost accounting system. These officials added that SSS is reviewing the annual agreements with DOD, and assessing all possible costs incurred to carry out the services provided to DOD. This complete assessment will assist SSS in determining the full costs of the services.

Recommendations

1. Strengthen internal controls over financial reporting by requiring, at least quarterly, that all vendors or contractors who provide goods and services to SSS are reviewed to identify and estimate accounts payable that should be accrued.

2. Obtain from COTRs or other knowledgeable persons documentation to support the value of goods and services provided by vendors, but not yet billed.

3. Analyze the factors that resulted in the incorrect military services accruals, and ensure that sufficient data is obtained, and appropriately analyzed so more accurate accruals are made.

4. Develop a project plan with milestone dates to ensure that the fiscal manual and all other OCFO directives are updated, approved and placed on the agency intranet.

5. Require that the requisition, and requisition approval are completed by different personnel, and that the receiving report is approved by the individual that requisitioned the item.

6. Ensure that the receiving report is provided to the accounting office as part of payment documentation.

7. Establish a cost accounting system that meets FASAB requirements.

8. Develop full costing for the services provided to the DOD so that SSS officials are aware of the subsidies provided, if any, to DOD.

A summary of the status of prior year findings is included as Appendix I.

COMPLIANCE WITH LAWS AND REGULATIONS

The results of our tests of compliance with certain provisions of laws and regulations, as described in the Responsibilities section of this report, disclosed no instance of noncompliance with laws and regulations that is required to be reported under *Government Auditing Standards* and OMB Bulletin 07-04 (as amended).

Responsibilities

Management Responsibilities

Management of the SSS is responsible for: (1) preparing the financial statements in conformity with generally accepted accounting principles; (2) establishing, maintaining, and assessing internal control to provide reasonable assurance that the broad control objectives of the Federal Managers Financial Integrity Act (FMFIA) are met; and (3) complying with applicable laws and regulations. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies.

Auditor Responsibilities

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin 07-04, *Audit Requirements for Federal Financial Statements* (as amended). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit includes (1) examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; (2) assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In planning and performing our audit, we considered the SSS's internal control over financial reporting by obtaining an understanding of the agency's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements.

We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin 07-04 (as amended) and *Government Auditing Standards*. We did not test all internal controls relevant to operating objectives as broadly defined by FMFIA. Our procedures were not designed to provide an opinion on internal control over financial reporting. Consequently, we do not express an opinion thereon.

As required by OMB Bulletin 07-04 (as amended), with respect to internal control related to performance measures determined to be key and reported in Management's Discussion and Analysis, we made inquiries of management concerning the methods of preparing the information, including whether it was measured and presented within prescribed the prior period(s) and the reasons for any such changes; and significant assumptions or interpretations underlying the measurement or presentation. We also evaluated the consistency of Management's Discussion and Analysis with management's responses to the foregoing inquiries, audited financial statements, and other audit evidence obtained during the examination of the financial statements. Our procedures were not designed to provide assurance on internal control over reported performance measures, and, accordingly, we do not provide an opinion thereon.

As part of obtaining reasonable assurance about whether the agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and significant provisions of contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain other laws and regulations specified in OMB Bulletin 07-04 (as amended). We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to the SSS. Providing an opinion on compliance with certain provisions of laws, regulations, and significant contract provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

AGENCY COMMENTS AND AUDITOR EVALUATION

In commenting on the draft of this report, the management of SSS concurred with the findings and recommendations in our report. A copy of management's response, which includes discussion of actions planned or taken to correct the reported deficiencies, accompanies this report. Since management concurred in the findings and recommendations, we have no additional comments.

DISTRIBUTION

This report is intended solely for the information and use of the management, and others within the SSS, OMB, and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

Leon Snead & Company, PC

Leon Snead & Company, P.C.
November 14, 2011

Appendix 1

Status of Prior Year Reportable Conditions, and Non-Compliance with Significant Laws and Regulations

Prior Year Condition	Status As Of September 30, 2011
1. Our testing of interim and year-end financial statements presented for audit identified presentation and posting errors that materially impacted the financial statements. Had the errors not been corrected, they would have resulted in qualifications to the financial statements.	Problem Corrected by Agency.
2. We found problems with controls over preparation, review and approval of journal vouchers. This weakness impacted 2010 financial management operations resulting in numerous errors in journal vouchers prepared by SSS personnel and its service provider.	Problem Corrected by Agency.
3. Problems relating to ineffective reconciliations of Fund Balance with Treasury (FBWT) have resurfaced during our audit of the 2010 financial statements. SSS personnel did not effectively follow Treasury's Financial Management Service (FMS) policies and procedures that require agencies to reconcile FBWT on a monthly basis.	Problem Corrected by Agency.
4. Because of an error in SSS's submission of year-end FACTSII data, errors occurred in the information on the President's budget for 2009 (actual amounts), and differences existed between SSS's 2009 Statement of Budgetary Resources and the President's budget for 2009.	Problem Corrected by Agency.
5. The General Ledger fixed asset and related depreciation balances did not reconcile with the asset and depreciation balances in the assets module of the accounting system.	Problem Corrected by Agency.
6. SSS's Fiscal Manual and related Agency Directives provide general guidance on funds control, and the processing of accounting transactions in the accounting system. However, the procedures do not fully meet the OMB and GAO requirements that agencies must document the process and controls used in the preparation of the annual financial statements, and other internal controls and operating processes.	Problem Remains Open.

Selective Service System

National Headquarters / Arlington, Virginia 22209-2425
http://www.sss.gov

November 09, 2011

Mr. Leon Snead, President
Leon Snead & Company, P.C.
416 Hungerford Drive, Suite 400
Rockville, Maryland 20850

Dear Mr. Snead:

In response to your Draft Audit Report for FY2011, dated November 07, 2011, I am enclosing the Selective Service System's responses. If you have any questions, please contact Carlo Verdino, Chief Financial Officer, at 703-605-4022 or Dien-Hoa Nguyen, Accounting Officer, at 703-605-4018.

Sincerely,

Lawrence G. Romo

Enclosure

SELECTIVE SERVICE SYSTEM

Responses to Draft FY-2011 Audit Report

The Selective Service System acknowledges and accepts the unqualified opinion, findings and recommendations contained in the draft audit report dated November 07, 2011.

The Agency acknowledges and accepts the significant deficiency identified in the report. The Agency is developing corrective action plans to implement the Auditor's recommendations.

SUMMARY OF AUDITORS' FINDINGS:

The audit found that the Selective Service System's financial statements for the year ending September 30, 2010, and that of the year ending September 30, 2011, are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America.

The audit identified no material weaknesses and one significant deficiency relating to internal controls over financial reporting.

The audit also found no instance of noncompliance with laws and regulations.

FINDINGS AND RECOMMENDATIONS:

Significant Deficiency: Financial reporting controls need further strengthening.

Finding #1 – Controls over accruals of accounts payable need strengthening.
Recommendations:

- Strengthen internal control over financial reporting by requiring, at least quarterly, that all vendors or contractors who provided goods and services to SSS review to identify and estimate accounts payable that should be accrued.

- Obtain from COTRs or other knowledgeable persons documentation to support the value of goods and services provided by vendors, but not yet billed.

- Analyze the factors that resulted in the incorrect military services accruals, and ensure that sufficient data is obtained, and appropriately analyzed so more accurate accruals are made.

SSS RESPONSE: Concur with the finding and recommendations. SSS has developed procedures for reporting quarterly accruals and practiced them for the 4th quarter reporting.

Finding #2 – Fiscal Manual needs to be completed.
Recommendations:

- Develop a project plan with milestone dates to ensure that the Fiscal Manual and all other OCFO directives are updated, approved and placed on the agency intranet.

SSS RESPONSE: Concur with the finding and recommendations. The Agency will continue to review and update the Fiscal Manual and the Agency's financial management and policies and directives. The Agency will take actions to ensure that issuances, revisions and updates published on the Agency's website are as current as that posted on the Agency's Financial Management's shared drive.

Finding #3 – Separation of duties needs strengthening.
Recommendations:

- Require that the requisition, and the requisition approval are completed by different personnel, and that the receiving report is approved by the individual that requisitioned the item.

- Ensure that the receiving report is provided to the accounting office as part of payment documentation.

SSS RESPONSE: Concur with the finding and recommendations. The Agency has taken actions to ensure that separation of duties is documented and clearly indicated in paper trails, and standard receiving reports are provided to the accounting office before payments are processed.

Finding #4 – Full costing of services should be accumulated and reported.
Recommendations:

- Establish a cost accounting system that meets FASAB requirements.

- Develop full costing for the services provided to the DOD so that SSS officials are aware of the subsidies provided, if any, to DOD.

SSS RESPONSE: Concur with the finding and recommendations. SSS is considering cost finding techniques in assessing full costing for the agency.

Selective Service System
BALANCE SHEET
As of September 30, 2011 and 2010
(in dollars)

	2011	2010
Assets:		
Intragovernmental:		
Fund balance with Treasury (Note 2)	$ 7,135,620	$ 8,392,733
Total intragovernmental	7,135,620	8,392,733
Accounts receivable, net (Note 3)	640	9,712
General property, plant and equipment, net (Note 4)	9,113,905	5,150,921
Total assets	$ 16,250,165	$ 13,553,366
Liabilities		
Intragovernmental:		
Accounts payable (Notes 7)	$ 1,062,989	$ 848,225
Other		
Employer contributions and payroll taxes payable (Note 7)	124,682	131,499
Unfunded FECA liability (Notes 5, 6, and 7)	531,401	522,886
Other unfunded employment related liability	7,985	-
Total intragovernmental	1,727,057	1,502,610
Accounts payable (Note 7)	703,996	847,654
Federal employee and veteran benefits (Notes 5, 6, and 7)	2,539,069	2,579,475
Other		
Accrued funded payroll and leave (Note 7)	593,549	608,867
Employer contributions and payroll taxes payable	15,320	968
Unfunded leave (Notes 5 and 7)	817,710	908,031
Total liabilities	6,396,701	6,447,605
Net position:		
Unexpended appropriations - other funds	4,635,083	5,955,522
Cumulative results of operations - other funds	5,218,380	1,150,239
Total net position	$ 9,853,463	$ 7,105,761
Total liabilities and net position	$ 16,250,163	$ 13,553,366

The accompanying notes are an integral part of these statements.

Selective Service System
STATEMENT OF NET COST
For the years ended September 30, 2011 and 2010
(in dollars)

Program costs:	2011	2010
Program A:		
Gross costs (Note 8)	$ 24,283,109	$ 24,134,640
Less: earned revenue (Note 9)	(369,252)	(369,245)
Net program costs	23,913,857	23,765,395
Net cost of operations	$ 23,913,857	$ 23,765,395

The accompanying notes are an integral part of these statements.

Selective Service System
STATEMENT OF CHANGES IN NET POSITION
For the Years Ended September 30, 2011 and 2010
(in dollars)

	2011	**2010**
Cumulative Results of Operations:		
Beginning Balances	$ 1,150,239	$ (496,658)
Adjustments:		
Beginning balance, as adjusted	1,150,239	(496,658)
Budgetary Financing Sources:		
Appropriations used	24,977,602	22,657,046
Other Financing Sources (Non-Exchange):		
Imputed financing	3,004,396	2,755,246
Other	-	-
Total Financing Sources	27,981,998	25,412,292
Net Cost of Operations	(23,913,857)	(23,765,395)
Net Change	4,068,141	1,646,897
Cumulative Results of Operations	**5,218,380**	**1,150,239**
Unexpended Appropriations:		
Beginning Balance	5,955,522	7,684,452
Adjustments:	-	-
Beginning Balance, as adjusted	5,955,522	7,684,452
Budgetary Financing Sources:		
Appropriations received	24,275,000	24,275,000
Other adjustments	(617,835)	(3,346,884)
Appropriations Used	(24,977,602)	(22,657,046)
Total Budgetary Financing Resources	(1,320,439)	(1,728,930)
Total Unexpended Appropriations	4,635,083	5,955,522
Net Position	**9,853,463**	**7,105,761**

The accompanying notes are an integral part of these statements.

Selective Service System
STATEMENT OF BUDGETARY RESOURCES
For the Years Ended September 30, 2011 and 2010
(in dollars)

	2011	2010
Budgetary Resources:		
Unobligated balance, brought forward, October 1:	$ 2,329,980	$ 5,346,453
Recoveries of prior year unpaid obligations	880,929	748,972
Budget authority		
Appropriation	24,275,000	24,275,000
Spending authority from offsetting collections (gross)		
Earned		
Collected	454,574	374,759
Subtotal	27,940,483	30,745,184
Permanently not available	(617,835)	(3,346,884)
Total budgetary resources	$ 27,322,648	$ 27,398,300
Program		
Status of Budgetary Resources:		
Obligations incurred:		
Direct	$ 24,109,439	$ 24,699,074
Reimbursable	369,252	369,246
Subtotal	24,478,691	25,068,320
Unobligated balance:		
Apportioned	7,870	4,230
Subtotal	7,870	4,230
Unobligated balance not available	2,836,087	2,325,750
Total status of budgetary resources	27,322,648	27,398,300
Change in Obligated Balance:		
Obligated balance, net		
Unpaid obligations, brought forward, October 1	6,062,752	5,140,924
Total unpaid obligated balance, net	6,062,752	5,140,924
Obligations incurred, net	24,478,691	25,068,320
Gross outlays	(25,368,851)	(23,397,520)
Recoveries of prior-year unpaid obligations, actual	(880,929)	(748,972)
Obligated balance, net, end of period		
Unpaid obligations	4,291,663	6,062,752
Total, unpaid obligated balance, net end of period	4,291,663	6,062,752
Net Outlays:		
Net Outlays:		
Gross outlays	25,368,851	23,397,520
Offsetting collections	(454,574)	(374,759)
Distributed offsetting receipts	-	-
Net outlays	24,914,277	23,022,761

The accompanying notes are an integral part of these statements.

SELECTIVE SERVICE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
As of and for the Periods ended September 30, 2011 and 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a)Reporting Entity

The Selective Service System (SSS) is an independent Federal agency, operating with permanent authorization under the Military Selective Service Act. SSS is not part of the Defense Department; however, it exists to serve the emergency manpower needs of the Defense Department, if a draft is necessary.

The Agency's mission is twofold: (1) provide manpower to the armed forces in an emergency; and (2) run an Alternative Service Program for registrants classified as conscientious objectors. The Alternative Service Program would provide public work assignments in America's communities in lieu of military service.

SSS' structure consists of the National Headquarters, Data Management Center, and three Regional Headquarters. The SSS workforce includes full-time permanent employees, part-time employees (state directors), volunteers (local board members), and military reservists. State Directors, Local Board Members and Military Reservists are the Agency's standby components. They serve part-time for the Agency, remaining trained and ready to be called into service in the event of a draft.

The Agency remains ready to implement a draft of untrained manpower, or personnel with professional health care or special skills, if directed by the Congress and the President to do so in a national crisis.

(b)Basis of Accounting and Presentation

The financial statements present the financial position, net cost of operations, changes in net position, and budgetary resources in accordance with U. S. Generally Accepted Accounting Principles (GAAP) and Financial Reporting Requirements of the Office of Management and Budget (OMB) prescribed in OMB Circular A-136, Financial Reporting Requirements (as revised September 29, 2010).

They have been prepared from the books and records of the SSS and include accounts of all funds under the control of the SSS. Accounting principles generally accepted in the United States encompass both accrual and budgetary transactions. Under the accrual method, revenue is recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of federal funds. The accompanying financial statements are prepared on the accrual basis of accounting.

(c)Budget Authority

The Congress passes appropriations annually that provide SSS with authority to obligate funds for necessary expenses to carry out mandated program activities. SSS performs reimbursable services for another Federal entity which reimburses SSS for the full costs of performing this service.

Annual appropriations are used, within statutory limits, for operating and capital expenditures for essential personal property. Also, SSS places internal restrictions on fund expenditures to ensure the efficient and proper use of all funds.

(d)Fund Balance with Treasury

Fund balances with Treasury primarily represent appropriated funds that are available to pay current liabilities and finance authorized purchase obligations. See Note 2 for additional information.

(e)Accounts Receivable

Accounts Receivable consists of amounts due from other federal entities, current and former employees, and vendors. Gross receivables are reduced to Net Realizable value by an allowance for uncollectible accounts. See Note 3 for additional information.

(f)Property, Plant, and Equipment

The basis for recording purchased general Property, Plant, and Equipment (PPE) is full costs, including all costs incurred to bring the PP&E to and from a location suitable for its intended use. The SSS PP&E consists of equipments, software, and internal use software in development. SSS' policy is to capitalize individual purchases of property and equipment with a cost of $10,000 or more and a useful life of at least three years. The dollar threshold for capitalization of bulk purchases is $50,000. Assets are depreciated using straight-line method of depreciation with useful lives ranging from three to seven years. See Note 4 for additional information.

(g)Accrued Liabilities and Accounts Payable

Accrued Liabilities and Accounts Payable represent a probable future outflow or other sacrifices of resources as a result of past transactions or events. Liabilities are recognized when incurred, regardless of whether they are covered by budgetary resources. Liabilities cannot be liquidated without legislation that provides resources to do so. Also, the government, acting in its sovereign capacity, can abrogate SSS liabilities. See Note 5 for information on "Liabilities Not Covered by Budgetary Resources" for information on Accounts Payable.

(h)Accrued Workers Compensation and Other Actuarial Liabilities

Federal Employees' Compensation Act (FECA) provides income and medical cost protection to cover federal civilian employees injured on the job, employees who have incurred a work-related injury or occupational disease, and to pay beneficiaries of employees whose deaths are attributable to job-related injuries or occupational disease. The FECA program is administered by the United States Department of Labor (DOL), which pays valid claims and subsequently seeks reimbursement from the Selective Service System for these paid claims. See Note 6 for additional information.

The FECA liability is based on two components. The first component is based on actual claims paid by DOL but not yet reimbursed by the SSS. There is generally a two-to-three-year time period between payment by DOL and reimbursement to DOL by the Selective Service System. The second component is the actuarial liability, which estimates the liability for future payments as a result of past events. The actuarial liability includes the expected liability for death, disability, medical, and miscellaneous cost for approved compensation cases.

(i)Pension Costs, Other Retirement Benefits, and other Post Employment Benefits

SSS recognizes the full costs of its employees' pension benefits. However, the liabilities associated with these costs are recognized by the Office of Personnel Management (OPM) rather than SSS.

Most employees hired prior to January 1, 1984; participate in the Civil Service Retirement System (CSRS) to which SSS contributes 7% of salaries for regular CSRS employees.

On January 1, 1987, the Federal Employees Retirement System (FERS) went into effect pursuant to Public Law 99-335. Employees hired after December 31, 1983, are automatically covered by FERS and Social Security. A primary feature of FERS is that it offers a savings plan to which SSS automatically contributes 1% of base pay and matches any employee contributions up to an additional 4% of base pay. For most employees hired after December 31, 1983, SSS also contributes the employer's matching share for Social Security.

Similar to federal retirement plans, OPM rather than the SSS, reports the liability for future payments to retired employees who participate in the Federal Employees Health Benefit Program (FEHBP) and the Federal Group Life Insurance Program (FEGLIP). SSS reports the full cost of providing other retirement benefits. The SSS also recognizes an expense and liability for other post employment benefits (OPEB), which includes all types of benefits provided to former or inactive (but not retired) employees, their beneficiaries, and covered dependents. During fiscal years 2011 and 2010, the cost factors relating to FEHBP were $6,027 and $5,906 respectively, per employee enrolled. During fiscal years 2011 and 2010, the cost factor relating to FEGLI was .02% of basic pay per employee enrolled.

(j)Annual, Sick, and Other Leave

Annual leave is accrued when earned and reduced as leave is taken. The balance in the accrued leave account is calculated using current pay rates. Sick leave and other types of non-vested leave are charged to operating costs as they are used.

(k)Imputed Costs/ Financing Sources

Federal Government entities often receive goods and services from other Federal Government entities without reimbursing the providing entity for all the related costs. These constitute subsidized costs which are recognized by the receiving entity. SSS recognized imputed costs and financing sources in fiscal years 2011 and 2010 to the extent directed by the OMB, such as: employees' pension, post-retirement health and life insurance benefits; other post-employment benefits for retired, terminated, and inactive employees, which include unemployment and workers compensation under the Federal Employees Compensation Act (FECA) and losses in litigation proceedings. In addition, SSS recognized imputed cost for services received from other Federal agencies without reimbursement; these services included office space for DMC and Region I and Reserve Force Officer (RFO) services from the U.S. Army Reserves, the U.S. Marine Corps Reserves, the U.S. Navy Reserves and the Army National Guard..

(l) Revenues and Other Financing Sources

SSS' activities are financed either through exchange revenue it derives from other Federal government entities or through appropriations. A reimbursable agreement with the Department of Defense provides the exchange revenue which is recognized when earned; i.e. services have been rendered. Appropriations used are recognized as financing sources when related expenses are incurred or assets purchased. SSS also incurs certain costs that are paid in total or in part by other Federal entities, such as pension costs. These subsidized costs are recognized on the Statement of Net Cost and imputed financing for these costs is recognized in the Statement of Changes in Net Position. As a result, there is no effect on Net Position.

(m)Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(n)Expired Accounts and Canceled Authority

SSS receives an annual appropriation, which unless otherwise specified by law, expires for incurring new obligations at the end of the fiscal year that the funds were appropriated. For the subsequent five fiscal years, the expired funds are available to liquidate valid obligations incurred during the unexpired period.

Obligations incurred during the unexpired period but not previously reported may be adjusted upwards or downwards. At the end of the fifth expired year, the expired account is canceled and any remaining funds are returned to Treasury.

NOTE 2 – FUND BALANCE WITH TREASURY

Fund Balance with Treasury consisted of the following at September 30, 2011 and 2010:

(in dollars)

Fund Balance:		**2011**		**2010**
Appropriated Funds (general)	$	7,135,620	$	8,392,733
Total Fund Balance with Treasury	$	7,135,620	$	8,392,733
Status of Fund Balance with Treasury				
Unobligated Balance:				
Available	$	7,870	$	4,230
Unavailable		2,836,087		2,325,751
Obligated Balance Not Yet Disbursed		4,291,663		6,062,752
Total Status of Fund Balance with Treasury	$	7,135,620	$	8,392,733

U.S. Government cash is accounted for on an overall consolidated basis by Treasury. The amounts shown on the Balance Sheets represent SSS' right to draw on Treasury for valid expenditures. The fund balance as shown on SSS' records are reconciled monthly with Treasury's records.

NOTE 3 – ACCOUNTS RECEIVABLE, NET

Due from the Public, Net. Accounts receivable due from the Public generally is related to employee payroll debt. Substantial receivables related to current employees are considered to be collectible, as there is no credit risk. Allowance for doubtful accounts is used only in instances where an employee has separated from duty prior to collection of their debt. Selective Service System takes its aged schedule of Accounts Receivable due from the Public and applies different rates, depending on the ages of the accounts receivable, to calculate allowances for uncollectible accounts. Selective Service System applies a 50% rate to the current uncollectible balances that are less than 366 days old and 100% rate to balances that are more than 365 days old.

Accounts Receivable from the Public				
Current				
1-180 Days Past Due			$	16
181-365 Days Past Due	$	1,281	$	6,999
1 to 2 Years Past Due	$	3,331	$	2,724
Over 2 years Past Due	$	1,538		-
Total Billed Accounts Receivable - Public	$	6,150	$	9,739
Unbilled Accounts Receivable		-		-
Total Accounts Receivable - Public		6,150		9,739
Allowance for Doubtful Accounts - Public		(5,510)		(27)
Total Accounts Receivable - Public, Net	$	640	$	9,712

NOTE 4 – GENERAL PROPERTY, PLANT AND EQUIPMENT, NET

SSS policy is to capitalize individual purchases of property and equipment with a cost of $10,000 or more and a useful life of at least three years. The dollar threshold for capitalization of bulk purchases is $50,000. Assets are depreciated using straight-line method of depreciation with useful lives ranging from three to seven years. Additionally, internal use software development and acquisition costs of $10,000 or greater are capitalized as software development in progress until the development stage has been completed and the software successfully tested. Upon completion and testing, software development-in-progress costs are reclassified as internal use software costs and amortized using the straight-line method over the estimated useful life of seven years. Purchased commercial software that does not meet the capitalization criteria is expensed. Capitalized property and equipment, net of accumulated depreciation, consisted of the following as of September 30, 2011 and 2010:

(in dollars)	Service Life	Acquisition Value	Accumulated Depreciation	2011 Net Book Value	2010 Net Book Value
Equipment	3-7 years	$ 921,718	$ (438,585)	$ 483,133	$ 264,043
Information Technology Software	3 years	1,135,938	(801,160)	334,778	388,016
Information Technology Software	7 years	8,295,994	-	8,295,994	-
Internal Use Software	7 years	-	-	-	4,498,862
Total		$ 10,353,650	$ (1,239,745)	$ 9,113,905	$ 5,150,921

NOTE 5 – LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

The liabilities on Selective Service System's Balance Sheet as of September 30, 2011, include liabilities not covered by budgetary resources, which are liabilities for which Congressional action is needed before budgetary resources can be provided. Although future appropriations to fund these liabilities are likely and anticipated, it is not certain that appropriations will be enacted to fund these liabilities. The composition of liabilities not covered by budgetary resources as of September 30, 2011 and 2010 is as follows:

(in dollars)		2011		2010
Intragovernmental:				
Unfunded Payroll Liabilities	$	531,401	$	522,886
Total Intragovernmental	$	531,401	$	522,886
Public Liabilities:				
Federal Employee and Veteran Benefits - FECA Actuarial Liabi	$	2,539,069	$	2,579,475
Unfunded Annual Leave		817,710	$	908,031
Other Unfunded Employment related Liability		7,985		-
Total Liabilities Not Covered by Budgetary Resources	$	3,896,165	$	4,010,392
Total Liabilities Covered by Budgetary Resources		2,500,536		2,437,213
Total Liabilities	$	6,396,701	$	6,447,605

(b) Other Information

Unfunded Payroll Liabilities consists of workers' compensation claims payable to the Department of Labor (DOL), which will be funded in a future period, and an unfunded estimated liability for future workers' compensation claims based on data provided from the DOL. The actuarial calculation is based on benefit payments made over 12 quarters, and calculates the annual average of payments. For medical expenses and compensation this average is then multiplied by the liability-to-benefit paid ratio for the whole FECA program.

Unfunded Annual Leave represents a liability for earned leave and is reduced when leave is taken. At year end, the balance in the accrued annual leave account is adjusted to reflect the liability at current pay rates and leave balances. Accrued annual leave is paid from future funding sources and, accordingly, is reflected as a liability not covered by budgetary resources. Sick and other leave are expensed as taken.

All other liabilities are considered to be covered by budgetary resources.

NOTE 6 - FEDERAL EMPLOYEES' COMPENSATION ACT

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to covered Federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. Claims incurred for benefits for SSS employees under FECA are administered by the Department of Labor (DOL) and are paid, ultimately, by SSS.

For 2010, and again in 2011, SSS used estimates provided by DOL to report the FECA liability. This practice is consistent with the practices of other Federal agencies.

SSS recorded an estimated actuarial liability for future costs that represent the expected liability for approved compensation cases beyond the current fiscal year. This estimated actuarial liability of $2,539,069 and $2,579,475 as of September 30, 2011 and 2010, respectively, is reported on SSS' Balance Sheet. SSS also recorded a liability for amounts paid to claimants by DOL as of September 30, 2011 and 2010, of $531,401 and $522,886, respectively, but not yet reimbursed to DOL by SSS.

NOTE 7 – LEASES

The Selective Service System leases office and storage space from commercial vendors and the General Service Administration (GSA). In addition, SSS rents copiers and other office equipment from commercial vendors and vehicles from GSA and commercial vendors. With the exception of the commercial leases on two office buildings (Colorado and Georgia) and the occupancy agreement (OA) with GSA (Virginia), all rentals are one-year. Because these rentals are considered cancelable, minimum lease payments due are restricted to the two commercial leases and the OA with GSA. Selective Service System has executed three long-term leases for office space. The three leases are as follows: (1) Region II Headquarters in Smyrna, Georgia, (2) Region III Headquarters in Denver, Colorado, and (3) National Headquarters in Arlington, Virginia.

The lease for the Region II Headquarters space is a ten-year lease initiated in January 2004 and expiring in January 2014. The annual rent of $69,654 in 2004 escalates between 6% and 4% each year to $105,820 in 2014.

The lease for the Region III Headquarters is a five-year lease initiated in January 2006 and extended in September 2010 to expire December 31, 2015. The annual rent of $94,023 has no escalation charge. However, the lease requires payment of the pro rata share of expenses related to operating, maintaining, repairing and managing the property. In 2011 the monthly cost for the Region III lease is $7,835. Office space for National Headquarters is obtained from General Services Administration (GSA) via an Occupancy Agreement (OA) which expires in October 2013. The base year rent of $525,462 can escalate from 5% to 10% each year for anticipated increases in operating costs.

(in dollars)

Fiscal Year	2011	2010
2011		$ 741,436
2012	$ 752,049	752,049
2013	762,862	762,862
2014	172,020	172,020
2015	94,023	94,023
2016	23,506	23,506
Total Future Lease Payments	$ 1,804,460	$ 2,545,896

NOTE 8 – Intragovernmental Costs

(in dollars)

		2011		2010
Intragovernmental costs				
Intragovernmental Costs	$	12,012,888	$	8,710,278
Public Costs		12,270,221		15,424,362
Total Program Cost	$	24,283,109	$	24,134,640
Intragovernmental Earned Revenue	$	369,252	$	369,245
Public Earned Revenue		-		-
Total Program Earned Revenue	$	369,252	$	369,245

Intragovernmental costs are those expenses paid by SSS to other federal government entities. They include, but are not limited to, the U.S. Postal Service, the Office of Personnel Management, the U. S. Navy, the Department of Defense, the Department of the Interior, General Services Administration, Government Printing Office, and Great Lakes Naval Station Public Works. Public costs are expenses paid to all other entities, to include state and local governments and the general public. All earned revenue was with other federal government agencies. Exchange revenues (See Note 9) are those that derive from transactions in which SSS is reimbursed for services performed for other Federal agencies.

NOTE 9 – EXCHANGE REVENUE

The Statement of Federal Financial Accounting Standards (SFFAS) No. 7, Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting, defines exchange revenue as inflows of resources to a governmental entity that the entity has earned. They arise from exchange transactions that occur when each party to the transaction sacrifices value and receives value in return. Exchange revenue is earned for services provided to other government agencies through reimbursable agreements. SSS recovers the full cost of services. Amounts are earned at the time the expenditures are incurred against the reimbursable order. During fiscal years 2011 and 2010, SSS earned $369,252 and $369,245 under an agreement with the U.S. Department of Defense. The DoD reimburses SSS for the difference in postage cost between what SSS currently paid to mail Acknowledgments and what it would cost to include DoD materials in the SSS Acknowledgments. SSS is also reimbursed for the difference between what they were paying to lease equipment for the mailing and the increase in lease costs for the additional equipment necessary to insert the materials for DoD.

NOTE 10 – UNDELIVERED ORDERS AT THE END OF THE PERIOD

Undelivered orders are purchase orders issued by SSS during Fiscal Year 2011 or Fiscal Year 2010 that have not had delivery of required product or service as of September 30, 2011 or 2010, respectively. It is anticipated that these undelivered items will be provided in future periods and will require resources obligated during Fiscal Year 2011 or Fiscal Year 2010.

	2011	2010
Undelivered Orders	$1,791,127	$3,625,542
Total Undelivered Orders	$1,791,127	$3,625,542

NOTE 11 – EXPLANATION OF DIFFERENCES BETWEEN THE SBR AND THE BUDGET OF THE US GOVERNMENT

SFFAS No. 7 calls for explanation of material differences between amounts reported in the Statement of Budgetary Resources (SBR) and the actual balances published in the Budget of the United States Government (President's Budget). The President's Budget with the actual FY 2010 amounts was released in February 2011, and the President's Budget with the FY 2011 amounts is estimated to be released in February 2012, and both can be located at the OMB Web site (*http://www.whitehouse.gov/omb*). As such, the actual amounts for FY 2011 in the President's Budget have not been published at the time these financial statements were prepared.

A comparison of FY 2010 Statement of Budgetary Resources to the President's Budget is shown in the following table:

FY 2010	Budgetary Resources (millions)	Obligations Incurred (millions)	Net Outlays (millions)
Combined Statement of Budgetary Resources	$ 27	$ 25	$ 23
Unobligated Balance Not Available	$ (3)	$ -	$ -
Total Adjusted Balance	$ 24	$ 25	$ 23
Budget of the U.S. Government[1]	$ 24	$ 24	$ 23
Difference[2]	$ (-)	$ (1)	$ -

1. Unobligated balances not available are not included in the amounts presented in the President's budget.
2. Rounding issue exists between the adjusted balance and the President's Budget.

NOTE 12 – RECONCILIATION OF NET COST TO BUDGET (STATEMENT OF FINANCING)

Details of the relationship between budgetary resources obligated and the net costs of operations for the fiscal year 2011 and fiscal year 2010 quarters that ended September 30 are shown in the table below.

For the Periods Ended September 30 2011 and 2010
(In Whole Dollar)

Budgetary Resources Obligated	FY11	FY10
Obligations Incurred	24,478,691	25,068,319
Less: Spending Authority from Offsetting Collections and Recoveries	(966,252)	(748,972)
Obligations Net of Offsetting Collections and Recoveries	23,512,439	24,319,347
Less: Offsetting Receipts	(369,252)	(374,759)
Net Obligations	23,143,187	23,944,588
Imputed Financing from Costs Absorbed by Others	3,004,396	2,755,246
Other	0	0
Net Other Resources Used to Finance Activities	3,004,396	2,755,246
Total Resources Used to Finance Activities	26,147,584	26,699,834
Resources Used to Finance Items Not Part of the Net Cost of Operations		
Change in Undelivered Orders	(1,834,415)	1,287,543
Resources that Fund Expenses Recognized in Prior Periods		
Resources that Finance the Acquisition of Assets or Liquidation of Liabilities	3,980,493	1,890,525
Other Resources that do not Affect Net Cost of Operations	0	0
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	2,146,078	3,178,068
Total Resources Used to Finance the Net Cost of Operations	24,001,506	23,521,766
Components Requiring or Generating Resources in Future Periods		
Increase/Decrease in Annual Leave Liability	(90,321)	(39,139)
Increase in Exchange Revenue Receivable from the Public	3,589	12,633
Other	0	0
Total Costs that will Require or Generate Resources in Future Periods	(86,733)	(26,506)
Components not Requiring or Generating Resources		
Depreciation and Amortization	444,725	210,185
Revaluation of Assets or Liabilities	(427,216)	0
Bad Debt	5,482	27
Other (Unfunded Leave and FECA Actuarial)	(23,906)	59,923
Total Components of Net Cost that will not Require or Generate Resources	(916)	270,135
Total Componenets of net Cost that will not Require or Generate Resources in the Current Period	(87,648)	243,629
Net Cost of Operations	**23,913,857**	**23,765,395**
Statement of Net Cost	23,913,857	23,765,395

Appendix

FY 2009 Performance Chart

Agency-wide Annual Performance Results and Targets

Performance Goals	Objective	Actual 2007	Actual 2008	Actual 2008	Actual 2010	Actual 2011	Target 2011
Maintain the Agency's Readiness Plans which include the Call and Deliver, Reclassify, Alternative Service, and the Lottery Standard Operating Procedures.	1.2.1	N/A	N/A	100%	100%	100%	100%
Be prepared to activate State Headquarters, Area Offices, and SSS Board Members to timely, fairly and equaitably process reclassification claims.	1.2.2	N/A	N/A	N/A	100%	100%	100%
Increase membership in the Alternative Service Employer Network through initiatives undertaken by its State Directors and RFOs at the local level.	1.3.2	N/A	N/A	N/A	0%	100%	100%
Attain registration rate above 90 percent for eligible males 18-25.	1.1.1	N/A	N/A	N/A	100%	100%	100%
Obtain 85 percent of registrations electronically.	1.1.2	100%	100%	100%	100%	100%	100%
Complete implementation of the Strategic Human Capital Management Plan.	2.1.1	30%	80%	85%	85%	85%	95%
Complete Implementation of the Homeland Security Presidental Directive (HSPD-12) initiative.	2.2.1	N/A	5%	5%	100%	100%	100%
Update the Fiscal Manual.	2.3.3	10%	20%	60%	60%	60%	100%
Implement additional internal controls within eTravel system.	2.3.1	N/A	N/A	60%	100%	100%	100%

Continued on Next Page

Performance Goals	Objective	Actual 2007	Actual 2008	Actual 2009	Actual 2010	Actual 2011	Target 2011
Continue performance and Budget intergration.	2.3.1	N/A	N/A	N/A	100%	100%	100%
Continue the development and implementation of the registration modernization project.	2.4.1	5%	7%	10%	25%	100%	100%
Ensure compliance with FISMA requirements and reporting tasks as well as protecting personal indentification information entrusted to the SSS.	2.3.1	5%	7%	10%	25%	50%	100%
DMC: Improve response times, in accordance with provisions of the Agency's Administrative Services Manual, for all types of responses (SIL, Compliance receipts, Reg. processing, all other correspondence):	2.5.1	12 Days	14 Days	27 Days	40.75 Days	21 Days	18 Days
PIA: Congressional, media, Freedom of Information Act and Privacy Act customer, registratns, the general public, etc.		10 Days	10 Days	8 Days	2.7 Days	2 Days	2 Days

Glossary

Abbreviations and Acronyms

Terminology	Acronym
Alternative Service Worker	ASW
Alternative Service Program	ASP
Annual Performance Plan	APP
Conscientious Objector	CO
Department of Defense	DoD
Government Performance and Results Act	GPRA
Interactive Voice Response System	IVR
Local Board	LB
Local Board Member	LBM
Military Entrance Processing Station	MEPS
Performance and Accountability Report	PAR
President's Management Agenda	PMA
Reserve Force Officer	RFO
Selective Service System	SSS
State Director	SD
Strategic Plan	SP