



# Performance and Accountability Report

Fiscal Year 2012



# Selective Service System

**Director**  
Lawrence Romo

**November 09, 2012**

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# From the Director

The Selective Service System (SSS) documents responsibility and accountability through implementation of its Performance Budget, Strategic Plan, and this 2012 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 fifth year in a row, SSS has received an unqualified financial audit opinion. The FY 2012 independent audit disclosed no material weaknesses; a remedial plan is underway to correct the non-material weaknesses.

The independent FY 2012 Federal Information Security Management Act (FISMA) audit notes continued improvement with many past issues resolved, and two material weaknesses remaining to be corrected. While substantial improvements have been achieved since my arrival in December 2010, we acknowledge these shortfalls and are implementing two-factor authentication for remote access and modifying cloud contract to include needed security requirements. These solutions will bring the Agency into full compliance.

Noteworthy is our comprehensive Registration, Compliance and Verification mainframe migration initiative to a smaller, more capable platform was fully implemented ahead of schedule, thus avoiding obsolete COBOL mainframe support. 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. Additionally, the Agency has not only eradicated its backlog of public registration inquiries, but has also ensured no return. Finally during FY 2012, SSS was judged as "The Best Place to Work in the



Federal Government for 2011" as the "most improved small Federal Agency" by the independent, private Partnership for Public Service.

In sum, 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.

A handwritten signature in black ink, appearing to read 'L. Romo'.

Lawrence G. Romo  
November 14, 2012



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## HOW TO USE THIS REPORT

This PAR contains the SSS's performance goals, measures, results, and accounting activities for FY 2012. The SSS's assessment of performance is a comparison of actual performance to the annual goals contained in the Agency's FY 2012 Performance Budget.

The report has five parts:

### Management's Discussion and Analysis

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

### Performance Details

This section contains detailed performance information for FY 2012. 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 2012. 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 2007 thru FY 2012.

### Glossary

# Management's Discussion and Analysis

## Agency at a Glance

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### 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 in the civilian community 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 72 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's goal is to maximize its resources as efficiently and effectively as possible.

### Organization

SSS has a diverse, small cadre of career employees, part-time military personnel, and volunteer private citizens dedicated to satisfying 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 uncompensated private citizens are participating in the SSS High School Registrar program and are authorized to administer and receive registrations from young men.

# Performance Highlights

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## 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 2011, the Selective Service national overall estimated registration compliance rate was down one percent over CY 2010 for men ages 18 through 25 who were required to be registered. For the 18 YOB group, the compliance rate was 67 percent, down two percentage points from CY 2010; the 19 YOB group was 87 percent, down two percent; and the 20 through 25 YOB groups (the draft-eligible groups) were 96 percent, the same as for CY 2010. Eighty-nine percent of all registrations for FY 2012 were received through electronic processes, a three percent gain over FY 2011.

**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.

To provide the required employment the Agency seeks to expand membership in the Alternative Service Employer Network (ASEN) through its outreach to its traditional conscientious objector constituency and to the many approved alternative service worker employer groups.

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

**Objective 1 – Offer 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 inquiries 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 – Ensure effective human resource and procurement management.**

Adopted and in place are the electronic official personnel folder and hiring reform tools. When fully implemented during FY 2013, DEU training and certification will reap further gains. The agency will continue to pay OPM for its recruiting actions. 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 – Promote 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 fifth 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 -- Foster 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 cloud computing initiative and Trusted Internet Connection security that effectively rebuffed hundreds of thousands of Internet-based attacks.

The FY 2012 FISMA audit noted continued improvement. Many past issues have been resolved, and the IT Directorate continues work on resolving outstanding challenges. Only two issues were noted during the most recent audit, and the staff is currently working to resolve each as quickly as possible.

The Agency strives to meet the cloud computing requirement to move two systems to a cloud environment by December 31, 2012. The RCV and e-mail systems are migrating currently to the SAVVIS and Office 365 clouds respectively. While the road to implementation has been somewhat difficult, SSS still believes it can make the deadline.

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 FY 2012.

## **Objective 5 – Promote 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 2012 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) outreach Initiatives; (3) social network development; and (4) national exhibits.. During FY 2012, SSS distributed 14 English and five Spanish radio news announcements to 12,000 stations and three TV news announcements were released to 1,000 media outlets. Radio “newspots” went to 7,000 radio stations. Additionally, the Agency produced 25 “Tips for Registration” announcements with an SSS registration message for distribution to media outlets in 2012. Also in 2012, the SSS “Tips for College” were made available for download to TV, cable TV, and PBS media outlets. They were distributed in 2013 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. Beginning in October, 2012, the “Ignorance of the Law Is No Excuse” campaign will run in 19 markets with low registration compliance with interior postings in 4,700 buses. In addition, SSS traveled to two low compliance cities and conducted 65 meetings with educators, media, immigrant services, churches, and social service organizations targeting the hard-to-reach immigrants and out-of-mainstream youth. SSS updated its social network plan and enhanced its “Face Book” page, banner ads, and “You Tube” site. SSS manned an exhibit at 21 of the Nation’s leading community-based and educational annual meetings promoting registration compliance.

## 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 2012 budget allocation was expended in support of the Agency’s Strategic Goals and Objectives.



# Financial Highlights

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## Financial Position

FY 2012 is the ninth 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 2012 and 2011 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 \$15.161 million in FY 2012. Fund balances with Treasury —mostly undisbursed cash balances from appropriated funds—comprised about 38 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 62 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 2012, SSS had total liabilities of \$4.986 million. The largest components of SSS liabilities were accounts payable and Federal Employee Compensation Act (FECA) actuarial totaling \$0.473 million and \$2.618 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 \$10.174 million. This amount is broken into two

categories: unexpended appropriations (amounts related to undelivered orders and unobligated balances) at \$4.643 million and cumulative results of operations (net results of operations since inception plus the cumulative amount of prior period adjustments) at \$5.532 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 2012 net cost of operations was \$24.292 million: \$24.658 million in gross costs less \$0.366 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 2012 with a net position total of \$10.174 million, slightly increased from FY 2011's position.

### 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 2012 budgetary resources totaled \$25.405 million and were primarily made up of budget authority funds of \$23.984 million and unobligated balance of \$1.432 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 2012. For the fifth consecutive fiscal year, the Agency received again 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 internal controls over financial reporting and is continuing to document new, effective and improved procedures in the ongoing updating of its Fiscal Manual.

The Financial Management Directorate achieved the goals set for becoming independent from the National Business Center – a service provider – in financial reporting, which facilitated internal control and quality control. In FY 2012, the SSS financial system was enhanced by the implementation of Oracle R12. The Agency was also successful in implementing into OTCnet, a Treasury Department web-based application for check capture and deposit reporting functionality.

## Director's Integrity Act Statement for Fiscal Year 2012

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, 2012, 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 fifth year in a row, the financial management systems conform with the objectives of FMFIA, the internal controls were operating effectively, and no 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, 2011, and (2) financial reporting as of September 30, 2012.

The FY 2012 independent audit of our IT security program determined that SSS was in substantial compliance with FISMA requirements. Two material weaknesses remain to be resolved, and the Agency is working to fix the problems as soon as possible.

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. Within constrained resources 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  
November 14, 2012

# Management Controls

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## 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 2012 Results

At the beginning of FY 2012, SSS had two FISMA material weaknesses. During FY 2012, SSS resolved one; the Agency is currently researching possible solutions for the remaining. 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)						
Statements 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	2	0	1	0	1	2
Total Material Weaknesses	2	0	1	0	1	2
Financial Management System (FMFIA Section 4)						
Statements 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)						
Statements 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)						
Statements of Assurance	Unqualified					
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 Management System Requirements (FMFIA 4)						
Statements of Assurance	Unqualified					
Material Weakness	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Non-conformances	0	0	0	0	0	0

## Outstanding Material Weakness

Two outstanding material weaknesses remained at the end of FY 2012: (1) Management of personal identifiable information (PII) data must be improved; and (2) Continuity of Operation Plans (COOP) must be improved.

## New Material Weakness

None.

## IT Security Program

### Summary of Outstanding Material Weaknesses

Material Weakness Existing	SSS IT Security Program  1. Implement two-factor authentication for remote access. 2. Modify cloud contract to include needed security requirements.
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FY 2012 Accomplishments	Planned Actions: Substantially improved FISMA audit results
Number 1 & 2 above completed	Accomplished in FY 2012

Planned Actions
<ul style="list-style-type: none"><li>• Comply with all FY 2012 security recommendations outlined in final FISMA report (contract modifications and two-factor authentication implementation).</li></ul>

## President's Management Approach

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 eEquip and eTravel processes sponsored by OPM, continue to function properly. In FY 2012 SSS implemented an automated time and attendance record keeping system to integrate with our existing payroll application. Each of these changes will improve programmatic accuracy and efficiency and avoid contracting expenses in the future.

During FY 2012 SSS completed its move off the mainframe. This accomplishment decreased operating and maintenance costs, ensured system security compliance with all Federal security and information technology requirements (FISMA, NIST, Clinger Cohen Act, Paperwork Reduction Act, etc.), increased the Agency's technical capabilities, and allowed 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, 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 2012

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 2012 Performance

This FY 2012 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 2012 marked a noted increase in DLL legislation occurred, with the addition of one new state with enacted and implemented legislation and four states pending implementation. A total of 40 states, three 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, Maine, 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, Washington, 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: Connecticut, Maryland, and Puerto Rico on October 15, 2012. As a result, 825,000 men were registered under DLL in FY 2012.

For FY 2012, 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 2012 Annual Performance Goal:***

Attain registration rate above 90 percent for eligible males 18-25.

***Was the goal achieved?*** Yes

##### ***Results:***

Projected: 91 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) 2011, the year group registration rate was 91 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](http://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 2011, the Selective Service national overall estimated registration compliance rate was down one percent over CY 2010 for men ages 18 through 25 who were required to be registered. For the 18 YOB group, the compliance rate was 67 percent, down two percentage points from CY 2010; the 19 YOB

group the rate was 87 percent or down two percent; and the 20 through 25 YOB group (the draft-eligible group) was 96 percent, the same as for CY 2010.

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

##### ***Planned Actions/Schedule:***

For FY 2013, 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 2012 Annual Performance Goal:***

Obtain 85 percent of registrations electronically.

***Was the goal achieved?*** Yes

##### ***Results:***

Projected: 85 percent - Actual: 89 percent of total.

##### ***Discussion:***

Eighty-nine percent of all registrations for FY 2012 were received through electronic means, a three percent gain from the prior year. DLL, Internet registration at [www.sss.gov](http://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 2012 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 2012 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 2012, 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. Further, the National Headquarters (NHQ) conducted a complete review of the National Readiness Plan and associated Standard Operating Procedures to coincide with the assessments conducted at the region and state levels.

**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. Integrating the NHQ reviews with the field reviews now synchronizes planning efforts and addresses issues in a more effective manner.

**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 2012 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) by SSS.**

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

### **FY 2012 Annual Performance Goal:**

Increase membership in the Alternative Service Employer Network (ASEN) through initiatives undertaken by State Directors and Reserve Force Officers (RFOs) at the local level.

***Was the goal achieved? No***

### **Results:**

ASEN recruitment has been the responsibility of NHQ personnel since the Agency's revitalization in the 1980s. The initiative to expand ASEN recruitment to Agency field elements was delayed to ensure that State Directors and RFOs had the required recruitment expertise before moving forward. This field expertise was to be ensured by a complete overhaul of the readiness training provided to field staff. As a consequence, 2012 has been devoted to the development of new electronic and other format training modules that will guide our personnel to create a recruiting strategy for their location. Additionally, discussion and participation of

the field elements in the reengineering process has encouraged acceptance of this change in operational procedure.

Nevertheless, new employer agreements continue; 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 2012, 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 2012 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 FY13.

***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:***

The Agency's HCMP was submitted and approved in 2012. Additionally, the Human Capital Management Report was submitted to OPM.

***FY 2012 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. Additionally, activation stations for all echelons of the Agency were purchased during FY 2012 to save staff time and transportation expenses when issuing and maintaining the cards.

***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 implemented 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 2012 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 2013.

***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 2013.

**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 2012 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 satisfying security and program requirements. 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 retired one outstanding FISMA issue. It will continue efforts to resolve the two remaining issues quickly thus ensuring the network remains secure. SSS has implemented virtualization technologies for over 85 percent of its network servers. These servers were upgraded to better facilitate COOP requirements through improved resources and to meet cloud computing requirements. The Agency plans to test workstation virtualization with the goal of increasing network efficiency and management.

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

For FY 2012, 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 2012 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 retired, 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 major effort increased the Agency's technical capabilities, allowed seamless integration with the other systems throughout the Agency's Enterprise Architecture, and ensured 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. It also completed the last phase of the RCV contract in FY 2012.

***Planned Actions/Schedule:***

At the end of FY 2012, phase four of the RCV contract was completed as scheduled.

***Verification and Validation:***

Phase four was completed on time and within budget.

**FY 2012 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?*** Yes

***Results:***

The FY 2012 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 was completed at 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 2012, 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.

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 21 national exhibits; participated in 65 outreach initiatives; and developed social media network internet tools promoting registration.

***FY 2012 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: 5 days
- Status Information Letters for Registrants: Target 15 days; Actual: 17 days
- Compliance Mailings: Target 10 days; Actual: 25 days
- Other Center Mailings: Target 10 days; Actual 12 days

***Public & Intergovernmental Affairs 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 were affected by the development and installation of the new RCV computer system. For example, no compliance letters were mailed until January 2012 causing an atypical and temporary situation – an unusually high volume of letters to be mailed at one time, creating a surge of responses during a very narrow period of time. Thus, a temporary backlog was experienced. However, once the workload returned to normal levels, the Center exceeded its response time goals.

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

***Impact:***

Acceptable customer service levels have again been achieved in responding to written inquiries generally. Both the Center and the Directorate are now exceeding their response time goals presently.

***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 Acting 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 Acting 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 fifth year in a row, I am pleased to report that as of September 30, 2012, SSS received an unqualified financial audit opinion. In FY 2012, 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.

A handwritten signature in black ink, appearing to read "Richard S. Flahavan".

Richard S. Flahavan  
November 14, 2012



# **Report of Independent Auditors**

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## **Selective Service System**

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### **Audit of Financial Statements**

**As of and for the Years Ended  
September 30, 2012 and 2011**

**Submitted by**  
**Leon Snead & Company, P.C.**  
*Certified Public Accountants & Management Consultants*



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Director, Selective Service System

**Independent Auditor's Report**

We have audited the balance sheets of the Selective Service System (SSS) as of September 30, 2012 and 2011, 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, 2012 and 2011, 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 instance 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, 2012 and 2011, 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, 2012 and 2011, in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Federal Accounting Standards Advisory Board (FASAB) who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America. This consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

## 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 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.

#### **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, 2012 and 2011, in accordance with auditing standards generally accepted in the United 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. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

## **Findings and Recommendations**

### **1. Controls over Undelivered Orders Needs Strengthening**

SSS controls over undelivered orders<sup>1</sup> needs strengthening. We attributed this problem to: (1) the need for updated accounting, budgetary and administrative policies and Integrated Mobilization Information System (IMIS) procedures relating to reserve field officers (RFO) costs; (2) the need to update the IMIS application; and (2) the need for updated policies that require periodic and effective reviews of undelivered orders. As a result, undelivered orders were overstated in prior years, as well as the certification that the agency provides to OMB relating to undelivered orders.

The Government Accountability Office (GAO), Fiscal Manual, Title 7, Chapter 3, provides that the over-recording of obligations is improper. 31 U.S.C. 1501(a) specifically directs that no amount shall be recorded as an obligation unless it is supported by documentary evidence. The manual also provides that each agency shall review its unliquidated obligations at least once a year, not necessarily at the fiscal year-end, to reasonably assure itself that only those transactions meeting the criteria of legally valid obligations have been included. The review is necessary to support the certifications required by 31 U.S.C. 1108(c) and 1554(b).

31 USC 3108 provides that “the head of an agency shall include with an appropriation request submitted to the President a report that the statement of obligations submitted with the request contains obligations consistent with section 1501 of this title. The head of the agency shall support the report with a certification of the consistency and shall support the certification with records showing that the amounts have been obligated, and readily available for examination. The documentation should appear in

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<sup>1</sup> The amount of goods and/or services ordered that have not been actually or constructively received.

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.”

In our 2011 financial statement audit report, we reported that the process followed by SSS to accrue amounts due military services, which also had an impact on the amount of undelivered orders during the fiscal year, was flawed. As part of our 2012 financial statement audit, we performed tests of undelivered orders. We noted that undelivered orders totaled about \$3.2 million for current and prior years at the date of our testing in early September. A significant portion of the current year undelivered orders related to RFO obligations that remained open until late in the fiscal year. We also noted similar issues in prior fiscal years where large amounts of obligations remained open, and these funds were either lost to SSS, or required reprogramming late in the fiscal year.

From the universe of undelivered orders for the period 2008 through 2011, we selected for review a non-statistical sample of 29 undelivered orders totaling approximately \$567,000. We requested SSS personnel to review the sampled undelivered orders, and determine if the orders were still valid. We received responses back from SSS personnel, and noted that 26 of the 29 samples were determined by SSS personnel to no longer represent valid undelivered orders.

During our audit, we identified that large dollar amounts of undelivered orders remained for RFO services towards the end of the 2012 fiscal year. In addition, we were advised by SSS officials that the agency was monitoring the fiscal year 2012 undelivered orders, including amounts shown for RFO undelivered orders. Based upon this review, the agency deobligated, and made available for other uses, about \$700,000, near the end of the fiscal year.

During our review of undelivered orders, we identified several issues that SSS officials need to address. Details follow:

- SSS’s current policies provide neither the detailed operating procedures necessary to compile a valid listing of undelivered orders, nor documentation, required by GAO Title 7 or 31 USC 3108 to support SSS officials annual certification on the undelivered orders reported to OMB. Without an effective process and necessary supporting documentation, showing that knowledgeable persons have reviewed undelivered orders, and deobligated orders that are no longer needed, SSS certifications to OMB could be in error.
- Calculations of the amounts of the original purchase orders (PO) for RFO services were significantly overstated considering the history of the number of actual RFOs that are brought onboard by the SSS. For example, for the 2012 fiscal year, the SSS issued POs representing the full costs of the 150 RFO ceiling OMB had established. However, when we reviewed records showing actual on-board strength for RFOs, we noted that on-board strength was about

110. This significantly overstated undelivered orders until the latter part of September.

The data provided by budget personnel, and IMIS data we obtained relating to RFO costs for fiscal year 2012 and prior years shows that the cost data in IMIS generally supported the costs information developed by CFO budget personnel. In addition, the IMIS system is used to calculate RFO costs for billing purposes<sup>2</sup> for about 50 percent of the RFO services. Therefore, if the IMIS costs were materially incorrect, 50 percent of the payments made by SSS (and based upon IMIS cost information) would also be incorrect. We did note, however, that travel cost information reported in IMIS was not always reflective of actual or projected travel costs. However, travel costs are not material to overall RFO costs.

- Budget personnel prepare a significant number of spreadsheets, other supporting documentation, and perform numerous analyses to capture RFO costs, and to determine initial budget obligations. However, as noted above, these documents and related RFO calculations have not proved effective in arriving at the estimated amounts to be initially obligated, or the costs to be incurred for the remaining part of the fiscal year. For example, for fiscal year 2012, we noted that the amounts of undelivered orders were overstated by almost \$700,000 until the latter part of the 2012 fiscal year. In addition, at the end of the 2011 fiscal year, SSS de-obligated approximately \$300,000 from 2010 fiscal year RFO undelivered orders.
- We interviewed knowledgeable personnel, reviewed selected IMIS data and reports, and noted the following:
  - IMIS is being converted to a new database system, but we were advised that no other significant changes were currently planned for the IMIS application.
  - Users of IMIS found that the system was not easy to use, and the information could not be easily changed. OCFO personnel advised that the information in the system was not accurate, and did not provide data necessary to calculate RFO budget and cost data without significant additional manual calculations.

IMIS operations needed to be updated to address the concerns of its users. This would enable the system to provide information required to support budget estimates, actual and projected RFO costs, and eliminate the need for extensive manual spreadsheets.

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<sup>2</sup> SSS calculates bills and provides these to a number of the military services for verification prior to payment to the military services. The remaining military service calculates there costs, and SSS uses IMIS and other information to validate these bills prior to approving for payment.

- SSS's administration of RFO operations is fragmented among human resource, field office, and OCFO personnel. We were unable to find current, comprehensive policies and procedures that dealt with RFO operations. We concluded that RFO administrative operations are in need of review and consolidation, and lack appropriate detailed operational and internal control procedures.

## 2. Accounting and Funds Control Manuals Need to be Finalized

In our 2011 and 2010 financial statement audits, we reported that the SSS's fiscal and funds control manuals did not meet OMB and GAO requirements that agencies must document the process and controls used in the preparation of the annual financial statements, other internal controls and operating processes, and issue a funds control manual. We were advised by SSS officials that the agency planned to have the two manuals updated and released during fiscal year 2012, but other priorities prevented finalizing the manuals. As a result, SSS has not fully met OMB requirements, and the absence of SSS operating and internal controls directives increases the impact to financial management operations when key staff changes occur.

OMB Circular A-136 states the Chief Financial Officer 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. OMB Circular A-11, *Preparation, Submission, and Execution of the Budget*, provides that agencies must complete a funds control manual.

During our follow-up tests of corrective actions taken on the 2011 audit recommendations, we found that insufficient actions were taken to update and release the SSS fiscal and funds control manuals. We reviewed the SSS fiscal manual, and discussed actions taken to address our 2011 audit recommendations with CFO officials. Similar to what we found in prior audits, most parts of the fiscal manual were significantly out-of-date, and the funds control manual had not been released. Details of our review 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.

SSS Fiscal Manual Section	LSC Comments
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
Funds Control Manual	Drafted and provided to OMB several years ago.

### Recommendations

1. Develop detailed operational procedures and policies to cover all aspects of RFO administrative operations, especially the process for developing initial budget estimates, and the projection of RFO costs for the remaining of the fiscal year.
2. Develop SSS policies and procedures that establish a process for reviewing and certifying by SSS personnel the validity of undelivered orders on a quarterly basis.
3. Require the OCFO to review and validate the reviews of undelivered orders, and prepare documentation that would support the certifications SSS officials provide to OMB.
4. Use IMIS cost data to assist in the preparation of RFO budget estimates, to eliminate unnecessary manual spreadsheet preparation, and to assist in the determination of valid RFO undelivered orders.
5. Develop a project plan with user input to modify IMIS so that it better supports SSS's needs relating to RFO operations.
6. Develop a project plan with milestone dates to ensure that the fiscal and funds control manuals are updated, approved and placed on the agency intranet.

### 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).

### AGENCY COMMENTS AND AUDITOR EVALUATION

The Acting Chief Financial Officer in a memorandum dated November 13, 2012, advised that the agency concurs with the audit report, and provided actions that the agency plans to take to address the findings and recommendations in the audit report.

The SSS's written response to the significant deficiencies identified in our audit was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

**DISTRIBUTION**

This report is intended solely for the information and use of SSS 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, P.C.  
November 14, 2012



**Attachment 1**

**Status of Prior Year Reportable Conditions**

<b>Prior Year Condition</b>	<b>Status as of September 30, 2012</b>
1. Controls over accruals of accounts payables need strengthening.	This issue was corrected by the SSS.
2. Fiscal Manual needs to be completed.	This issue continues to impact the SSS in 2012.
3. Separation of duties controls need strengthening.	This issue was corrected by the SSS.
4. Full costing of services should be accumulated and reported.	This issue was corrected by the SSS.

## SELECTIVE SERVICE SYSTEM

### Responses to FY-2012 Audit Report

The Selective Service System acknowledges and accepts the unqualified opinion, findings and recommendations contained in the draft audit report dated November 07, 2012.

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 years ending September 30, 2012, and 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 two significant deficiencies relating to internal controls over financial reporting.

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

#### FINDINGS AND RECOMMENDATIONS:

Significant Deficiency: Controls over Undelivered Orders need further strengthening.

Significant Deficiency: Accounting and Funds Control Manuals need to be finalized.

#### Recommendation #1:

- Develop detailed operational procedures and policies to cover all aspects of RFO administrative operations, especially the process for developing initial budget estimates, and the projection of RFO costs for the remaining of the fiscal year.

SSS RESPONSE: Concur with the finding and recommendation. SSS will have detailed operational procedures developed for administrative, budgeting and accounting activities related to the RFO Project.

#### Recommendation #2:

- Develop SSS policies and procedures that establish a process for reviewing and certifying by SSS personnel the validity of undelivered orders on a quarterly basis.

SSS RESPONSE: Concur with the finding and recommendation. SSS will have policies and procedures developed for quarterly reviews of prior year and current year undelivered orders. The quarterly reviews will be designed to ensure that undelivered orders maintained in the

Agency's financial system are all current and justified, and all unused undelivered order balances are canceled or scheduled to be canceled in a timely manner.

Recommendation #3:

- Require the OCFO to review and validate the reviews of undelivered orders, and prepare documentation that would support the certifications SSS officials provide to OMB.

SSS RESPONSE: Concur with the finding and recommendation. SSS new policies and procedures will require the OCFO to review and certify the reviews of undelivered orders. The OCFO reviews and certifications will be documented, as required. SSS will start the first review of prior year and current year undelivered orders with financial data as of December 31, 2012, in mid-January 2013, while written policies and procedures are developed.

Recommendation #4:

- Use IMIS cost data to assist in the preparation of RFO budget estimates, to eliminate unnecessary manual spreadsheet preparation, and to assist in the determination of valid RFO undelivered orders.

SSS RESPONSE: Concur with the finding and recommendation.

Recommendation #5:

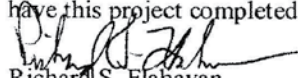
- Develop a project plan with user input to modify IMIS so that it better supports SSS's needs relating to RFO operations.

SSS RESPONSE: Concur with the finding and recommendation. The SSS is re-visiting IMIS currently and intends to see how IMIS could be improved and better support RFO financial activities. This plan has been scheduled to be completed by the end of FY-2013.

Recommendation #6:

- Develop a project plan with milestone dates to ensure that the fiscal and funds control manuals are updated, approved and placed on the agency intranet.

SSS RESPONSE: Concur with the finding and recommendation. SSS will coordinate all efforts to have detailed tasks scheduled and the fiscal manual updated for publication. SSS plans to have this project completed by August 31, 2013.

  
Richard S. Flahavan  
Acting Chief Financial Officer

13 Nov-12

**Selective Service System**  
**BALANCE SHEET**  
**As of September 30, 2012 and 2011**  
**(in dollars)**

	2012	2011
Assets:		
Intragovernmental:		
Fund Balance with Treasury (Note 2)	\$ 5,814,204	\$ 7,135,620
Total intragovernmental	5,814,204	7,135,620
Accounts receivable, net (Note 3)	2,292	640
General property, plant and equipment, net (Note 4)	9,344,682	9,113,905
Total assets	<u>\$ 15,161,178</u>	<u>\$ 16,250,165</u>
Liabilities		
Intragovernmental:		
Accounts payable (Note 5)	\$ 133,399	\$ 1,062,989
Other		
Employer contributions and payroll taxes payable (Note 5)	124,300	124,682
Unfunded FECA liability (Notes 5 and 6)	507,408	531,401
Other unfunded employment related liability	-	7,985
Total intragovernmental	<u>\$ 765,107</u>	<u>\$ 1,727,057</u>
Accounts payable (Note 5)	339,162	703,996
Federal employee and veteran benefits (Notes 5 and 6)	2,618,044	2,539,069
Other		
Accrued funded payroll and leave (Note 5)	558,702	593,550
Employer contributions and payroll taxes payable	15,808	15,320
Unfunded leave (Note 5)	689,486	817,710
Total liabilities	<u>\$ 4,986,309</u>	<u>\$ 6,396,702</u>
Net position:		
Unexpended appropriations - other funds	4,642,834	4,635,083
Cumulative results of operations - other funds	5,532,035	5,218,380
Total net position	<u>\$ 10,174,869</u>	<u>\$ 9,853,463</u>
Total liabilities and net position	<u>\$ 15,161,178</u>	<u>\$ 16,250,165</u>

The accompanying notes are an integral part of these statements.

  
**Selective Service System**  
**STATEMENT OF NET COST**  
**For the Periods Ended September 30, 2012 and 2011**  
**(in dollars)**

Program costs:	2012	2011
Program A:		
Gross costs (Note 8)	\$ 24,658,300	\$ 24,283,109
Less: earned revenue (Note 9)	<u>(366,838)</u>	<u>(369,252)</u>
Net program costs	24,291,462	23,913,857
Net cost of operations	<u>\$ 24,291,462</u>	<u>\$ 23,913,857</u>

The accompanying notes are an integral part of these statements.

Selective Service System  
STATEMENT OF CHANGES IN NET POSITION  
For the Periods Ended September 30, 2012 and 2011  
(in dollars)

	2012	2011
<b>Cumulative Results of Operations:</b>		
Beginning Balances	\$ 5,218,380	\$ 1,150,239
Adjustments:	<u>-</u>	<u>-</u>
Beginning balance, as adjusted	\$ 5,218,380	\$ 1,150,239
<b>Budgetary Financing Sources:</b>		
Appropriations used	21,875,284	24,977,602
Non-exchanged Revenue	-	-
<b>Other Financing Sources (Non-Exchange):</b>		
Imputed financing	2,729,833	3,004,396
Total Financing Sources	\$ 24,605,117	\$ 27,981,998
Net Cost of Operations	<u>\$ (24,291,462)</u>	<u>\$ (23,913,857)</u>
Net Change	\$ 313,655	\$ 4,068,141
<b>Cumulative Results of Operations</b>	<b>\$ 5,532,035</b>	<b>\$ 5,218,380</b>
<b>Unexpended Appropriations:</b>		
Beginning Balance	\$ 4,635,084	\$ 5,955,522
Adjustments:	<u>\$ -</u>	<u>\$ -</u>
Beginning Balance, as adjusted	\$ 4,635,084	\$ 5,955,522
<b>Budgetary Financing Sources:</b>		
Appropriations received	\$ 23,984,000	\$ 24,275,000
Other adjustments	(2,100,966)	(617,835)
Appropriations Used	<u>(21,875,284)</u>	<u>(24,977,602)</u>
Total Budgetary Financing Resources	<u>\$ 7,750</u>	<u>\$ (1,320,439)</u>
Total Unexpended Appropriations	\$ 4,642,834	\$ 4,635,083
Net Position	<u><b>\$ 10,174,869</b></u>	<u><b>\$ 9,853,463</b></u>

The accompanying notes are an integral part of these statements.

  
**Selective Service System**  
**STATEMENT OF BUDGETARY RESOURCES**  
**For the Periods Ended September 30, 2012 and 2011**  
**(in dollars)**

	2012	2011
<b>Budgetary Resources:</b>		
Unobligated balance, brought forward, October 1	\$ 2,843,957	\$ 2,329,980
Recoveries of prior year unpaid obligations	298,275	880,929
Other changes in unobligated balance	<u>(2,100,966)</u>	<u>(617,835)</u>
Unobligated balance from prior year budget authority, net	1,041,266	2,593,074
Appropriations	23,984,000	24,275,000
Spending Authority from offsetting collections	<u>380,046</u>	<u>454,574</u>
Total budgetary resources	<u><u>\$ 25,405,312</u></u>	<u><u>\$ 27,322,648</u></u>
<b>Status of Budgetary Resources:</b>		
Obligations incurred (Note 10)	\$ 23,972,859	\$ 24,478,691
Unobligated balance, end of year		
Apportioned	181,009	7,870
Unapportioned	<u>1,251,444</u>	<u>2,836,087</u>
Total unobligated balance, end of year	<u>1,432,453</u>	<u>2,843,957</u>
Total budgetary resources	<u><u>\$ 25,405,312</u></u>	<u><u>\$ 27,322,648</u></u>
<b>Change in Obligated Balance:</b>		
Unpaid Obligations:		
Unpaid obligations, brought forward, October 1	\$ 4,291,663	\$ 6,062,752
Obligations incurred (Note 10)	23,972,859	24,478,691
Outlays (gross)	(23,584,496)	(25,368,851)
Recoveries of prior year unpaid obligations	<u>(298,275)</u>	<u>(880,929)</u>
Unpaid obligations, end of year	<u><u>4,381,751</u></u>	<u><u>4,291,663</u></u>
Memorandum (non-add) entries:		
Obligated balance, start of year	4,291,663	6,062,752
Obligated balance, end of year	<u>\$ 4,381,751</u>	<u>\$ 4,291,663</u>
<b>Budget Authority and Outlays, Net</b>		
Budget Authority, gross	\$ 24,364,046	\$ 24,729,574
Actual offsetting collections	<u>(380,046)</u>	<u>(454,574)</u>
Budget Authority, net	<u>23,984,000</u>	<u>24,275,000</u>
Outlays (gross)	23,584,496	25,368,851
Actual offsetting collections	<u>(380,046)</u>	<u>(454,574)</u>
Outlays, net	<u>23,204,450</u>	<u>24,914,277</u>
Agency outlays, net	<u><u>\$ 23,204,450</u></u>	<u><u>\$ 24,914,277</u></u>

The accompanying notes are an integral part of these statements.

# **SELECTIVE SERVICE SYSTEM**

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## **NOTES TO THE FINANCIAL STATEMENTS**

**As of and for the Periods ended September 30,  
2012 and 2011**

  
**SELECTIVE SERVICE SYSTEM**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**As of and for the Periods ended September 30, 2012 and 2011**

**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 August 03, 2012).

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 (FGLIP). 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 2012 and 2011, the cost factors relating to FEHBP were \$5,817 and \$6,027 respectively, per employee enrolled. During fiscal years 2012 and 2011, the cost factor relating to FGLI 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 2012 and 2011 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, 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, 2012 and 2011:

(in dollars)			
<b>Fund Balance:</b>		<b>2012</b>	<b>2011</b>
Appropriated Funds (general)	\$	5,814,204	\$ 7,135,620
<b>Total Fund Balance with Treasury</b>	<b>\$</b>	<b>5,814,204</b>	<b>\$ 7,135,620</b>

### Status of Fund Balance with Treasury

Unobligated Balance:			
Available	\$	181,009	\$ 7,870
Unavailable		1,251,444	2,836,087
Obligated Balance Not Yet Disbursed		4,381,751	4,291,663
<b>Total Status of Fund Balance with Treasury</b>	<b>\$</b>	<b>5,814,204</b>	<b>\$ 7,135,620</b>

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	\$ 4,584	\$ -
181-365 Days Past Due		1,281
1 to 2 Years Past Due	996	3,331
Over 2 years Past Due	2,373	1,538
Total Billed Accounts Receivable - Public	\$ 7,953	\$ 6,150
Unbilled Accounts Receivable	-	-
Total Accounts Receivable - Public	7,953	6,150
Allowance for Doubtful Accounts - Public	(5,661)	(5,510)
Total Accounts Receivable - Public, Net	\$ 2,292	\$ 640

#### 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, 2012 and 2011:

(in dollars)	Service Life	Acquisition Value	Accumulated Depreciation	2012 Net Book Value	2011 Net Book Value
Equipment	3-7 years	\$ 919,758	\$ (671,487)	\$ 248,271	\$ 483,133
Information Technology Software	3 years	391,147	(283,650)	107,498	334,778
Information Technology Software	7 years	10,943,460	(1,954,546)	8,988,913	8,295,994
Internal Use Software	7 years	-	-	-	-
Total		\$ 12,254,365	\$ (2,909,683)	\$ 9,344,682	\$ 9,113,905

#### NOTE 5 – LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

The liabilities on Selective Service System's Balance Sheet as of September 30, 2012, 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, 2012 and 2011 is as follows:

(in dollars)	2012	2011
Intragovernmental:		
Unfunded Payroll Liabilities	\$ 507,408	\$ 531,401
Total Intragovernmental	\$ 507,408	\$ 531,401
Public Liabilities:		
Federal Employee and Veteran Benefits - FECA Actuarial Liability	\$ 2,618,044	\$ 2,539,069
Unfunded Annual Leave	689,486	817,710
Other Unfunded Employment related Liability	-	7,985
Total Liabilities Not Covered by Budgetary Resources	\$ 3,814,938	\$ 3,896,165
Total Liabilities Covered by Budgetary Resources	1,171,371	2,500,536
Total Liabilities	\$ 4,986,309	\$ 6,396,701

**(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 2011, and again in 2012, 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 \$2,618,044 and \$2,539,069 as of September 30, 2012 and 2011, respectively, is reported on SSS' Balance

Sheet. SSS also recorded a liability for amounts paid to claimants by DOL as of September 30, 2012 and 2011, of \$507,408 and \$531,401, 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 2012 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)

<b>Fiscal Year</b>	<b>2012</b>	<b>2011</b>
2012		\$ 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	\$ 1,052,411	\$ 1,804,460

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2016	23,506	23,506
Total Future Lease Payments	\$ 1,052,411	\$ 1,804,460

#### NOTE 8 – Intragovernmental Costs

(in dollars)

	2012	2011
<b>Intragovernmental costs</b>		
Intragovernmental Costs	\$ 10,733,115	\$ 12,012,888
Public Costs	13,925,185	12,270,221
<b>Total Program Cost</b>	<b>\$ 24,658,300</b>	<b>\$ 24,283,109</b>
Intragovernmental Earned Revenue	\$ 366,838	\$ 369,252
Public Earned Revenue	-	-
<b>Total Program Earned Revenue</b>	<b>\$ 366,838</b>	<b>\$ 369,252</b>

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 2012 and 2011, SSS earned \$366,838 and \$369,252 under an agreement with the U.S. Department of Defense. The DOD reimbursed SSS for the indirect labor costs that SSS incurred in mailing DOD materials as inserts along with SSS Acknowledgments and in managing and reporting on this annual reimbursable agreement. SSS was 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 – APPORTIONMENT CATEGORIES OF OBLIGATIONS INCURRED: DIRECT vs REIMBURSABLE OBLIGATIONS

Obligations incurred reported on the Statement of Budgetary Resources in fiscal year 2012 and fiscal year 2011 consisted of the following:

(in dollars)

	<b>Apportionment Category</b>	<b>FY-2012 Obligations</b>	<b>FY-2011 Obligations</b>
<b>Obligations incurred:</b>			
Direct Obligations	A	\$ 23,606,021	\$ 24,109,439
Reimbursable Obligations	A	366,838	369,252
<b>Total Obligations incurred</b>		<b>\$ 23,972,859</b>	<b>\$ 24,478,691</b>

#### **NOTE 11 – UNDELIVERED ORDERS AT THE END OF THE PERIOD**

Undelivered orders are purchase orders issued by SSS during fiscal year 2012 or fiscal year 2011 that have not had delivery of required product or service as of September 30, 2012 or 2011, respectively. It is anticipated that these undelivered items will be provided in future periods and will require resources obligated during fiscal year 2012 or fiscal year 2011.

	2012	2011
Undelivered Orders	<u>\$3,210,381</u>	<u>\$1,791,127</u>
Total Undelivered Orders	<u>\$3,210,381</u>	<u>\$1,791,127</u>

#### **NOTE 12 – 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 2011 amounts was released in February 2012, and the President's Budget with the FY 2012 amounts is estimated to be released in February 2013, and both can be located at the OMB Web site (<http://www.whitehouse.gov/omb>). As such, the actual amounts for FY 2012 in the President's Budget have not been published at the time these financial statements were prepared.

A comparison of FY 2011 Statement of Budgetary Resources to the President's Budget is shown in the following table:

FY 2011	Budgetary Resources (millions)	Obligations Incurred (millions)	Net Outlays (millions)
Combined Statement of Budgetary Resources	\$ 27	\$ 24	\$ 25
Unobligated Balance Not Available	\$ (3)	\$ -	\$ -
Total Adjusted Balance	\$ 24	\$ 24	\$ 25
<i>Budget of the U.S. Government</i> <sup>1</sup>	\$ 24	\$ 24	\$ 25
Difference	\$ (-)	\$ (-)	\$ (-)

1. Unobligated balances not available are not included in the amounts presented in the President's budget.

#### NOTE 13 – 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 2012 and fiscal year 2011 quarters that ended September 30 are shown in the table below.

##### For the Periods Ended September 30, 2012 and 2011 (in whole dollar)

<u>Budgetary Resources Obligated</u>	<u>FY12</u>	<u>FY11</u>
<u>Obligations Incurred</u>	23,972,859	24,478,691
Less: Spending Authority from Offsetting Collections and Recoveries	(311,484)	(966,252)
Obligations Net of Offsetting Collections and Recoveries	23,661,375	23,512,439
Less: Offsetting Receipts	(366,838)	(369,252)
Net Obligations	23,294,538	23,143,187
Imputed Financing from Costs Absorbed by Others	2,729,833	3,004,396
Other	0	0
Net Other Resources Used to Finance Activities	2,729,833	3,004,396
Total Resources Used to Finance Activities	26,024,371	26,147,584
<u>Resources Used to Finance Items Not Part of the Net Cost of Operations</u>		
Change in Undelivered Orders	1,419,253	(1,834,415)
Resources that Fund Expenses Recognized in Prior Periods		
Resources that Finance the Acquisition of Assets or Liquidation of Liabilities	1,825,532	3,980,493
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	3,244,785	2,146,078
Total Resources Used to Finance the Net Cost of Operations	22,779,586	24,001,506

**Components Requiring or Generating Resources in Future Periods**

Increase/Decrease in Annual Leave Liability	(128,224)	(90,321)
Increase in Exchange Revenue Receivable from the Public	(1,803)	3,589
Other	0	0
Total Costs that will Require or Generate Resources in Future Periods	(130,027)	(86,733)

**Components not Requiring or Generating Resources**

Depreciation and Amortization	1,671,899	444,725
Revaluation of Assets or Liabilities	(75,184)	(427,216)
Bad Debt	152	5,482
Other (Unfunded Leave and FECA Actuarial)	45,036	(23,906)
Total Components of Net Cost that will not Require or Generate Resources	1,641,903	(916)
Total Components of Net Cost that will not Require or Generate Resources in the Current Period	1,511,876	(87,648)
<b>Net Cost of Operations</b>	<b>24,291,462</b>	<b>23,913,857</b>
Statement of Net Cost	24,291,462	23,913,857

# Appendix

## FY 2012 Performance Chart

### Agency-wide Annual Performance Results and Targets

Performance Goals	Objective	Actual 2007	Actual 2008	Actual 2009	Actual 2010	Actual 2011	Actual 2012
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 equitably 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 Presidential 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	N/A	100%	100%	100%
Continue Performance and Budget integration.	2.3.2	60%	70%	75%	100%	100%	100%
Continue the development and implementation of the registration modernization project.	2.4.1	5%	7%	10%	25%	100%	100%

*Continued on next page*



Performance Goals	Objective	Actual 2007	Actual 2008	Actual 2009	Actual 2010	Actual 2011	Actual 2012
Ensure compliance with FISMA requirements and reporting tasks as well as protecting personal identification information entrusted to SSS.	2.4.1	5%	7%	10%	25%	50%	100%
<b>DMC:</b> 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
<b>PIA:</b> Congressional, media, Freedom of Information Act and Privacy Act customers, registrants, the general public, etc.		10 days	10 days	8 days	2.7 days	2 days	2 days

## 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