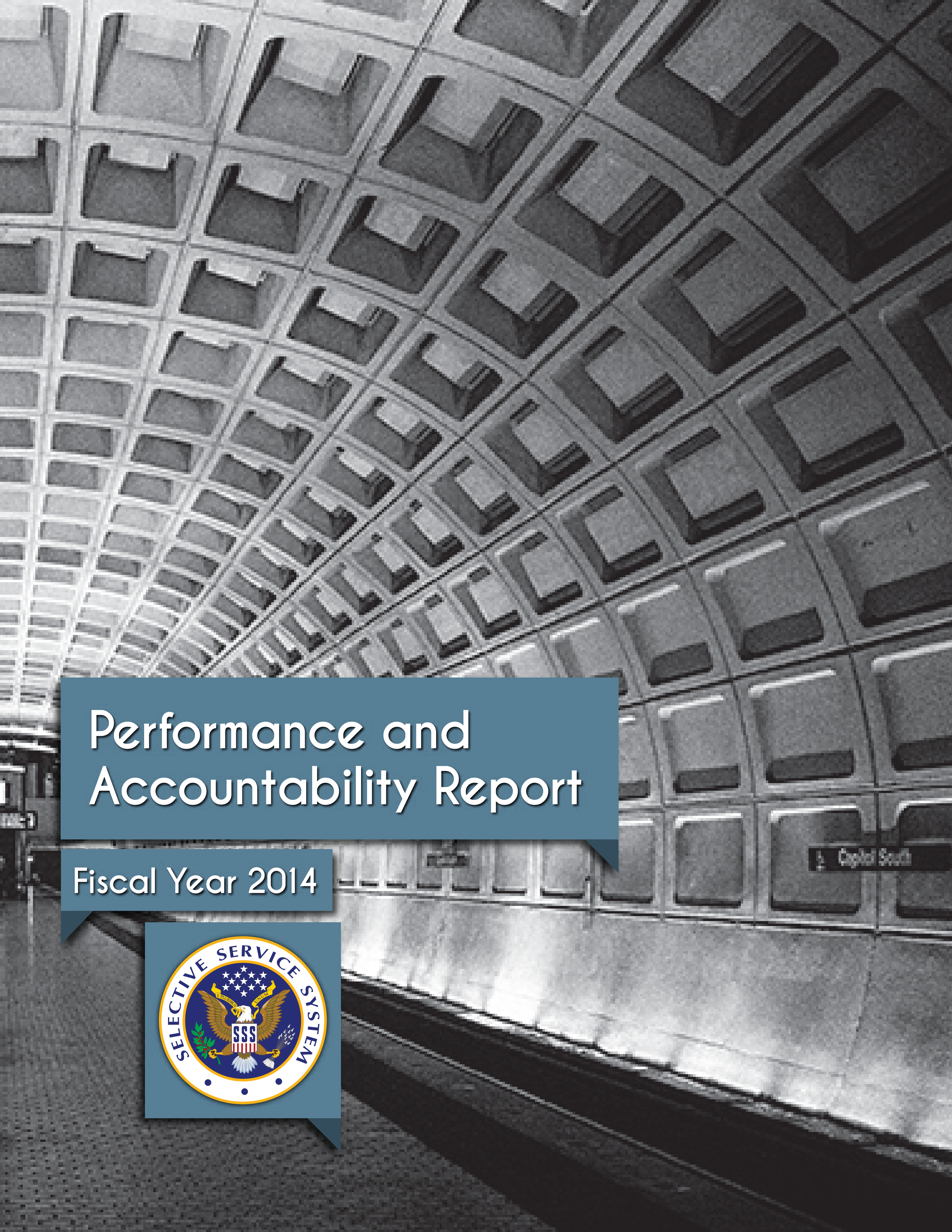
Performance and Accountability Report

Fiscal Year 2014

SELECTIVE SERVICE SYSTEM



Selective Service System

November 17, 2014

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FROM THE DIRECTOR

The Selective Service System (SSS) documents responsibility and accountability through implementation of its Strategic Plan, Performance Budget, and this 2014 Performance and Accountability Report (PAR). The Agency reviewed and assessed program performance and financial management systems in particular to guarantee that organizational stewardship aligns 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 the FY 2014 independent audit disclosed no material weaknesses, and for the seventh year in a row, SSS has received an unmodified ("clean") financial audit opinion.

Similarly, FY 2014 marked the second year in a row since Federal Information Security Management Act (FISMA) auditing began in 2003 in which SSS met all mandates and independent auditors found no material weaknesses in the Agency's IT security program. This achievement is a direct reflection of the management effort that was focused on IT security improvement.

In sum, the financial statements contained herein fairly represent 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 September 18, 2014.

Lawrence G. Romo
November 17, 2014

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Agency at a Glance

Mission

The Agency's missions, defined in the Military Selective Service Act (MSSA) [50 U.S.C., app 451 *et seq*] are to remain prepared to provide personnel to the Department of Defense (DoD) in the event of a national emergency, and to provide an Alternative Service Program 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 today, other components of our mission 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 System 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) for testing and evaluation for military service.

Once notified of the results of his evaluation at the MEPS, a registrant may choose to file a claim for exemption, postponement, or deferment. If a claimant is re-classified by his 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. SSS leadership understands that both national and international events require fresh perspectives and a clear recognition of changing realities. 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 74 years, SSS and the registration requirement for America's young men have 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. Other than a brief suspension of the registration requirement from 1975 to 1980, registration has continued uninterrupted.

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

Organization

SSS has a diverse cadre of civilian employees, part-time military personnel, and part-time volunteer private citizens dedicated to satisfying its statutory goals of peacetime registration and maintaining 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 local men seeking exemption or deferments, based on conscientious objection, hardship to dependents, or their status as ministers or ministerial students. Additionally, several thousand uncompensated volunteer private citizens are participating in the SSS High School Registrar program and are authorized to administer and receive registrations from young men.

Performance Highlights

Goals Overview

The SSS has two overriding strategic goals directed toward the achievement of its statutory missions.

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 calendar year (CY) 2013, the latest complete year of registration statistics, the national overall estimated registration compliance rate was up one percent over CY 2012, to 93 percent, for men ages 18 through 25 who were required to be registered. For the 18 year of birth (YOB) group, the compliance rate was 72 percent, up two percentage points from CY 2012; the 19 YOB group was 89 percent, unchanged from CY 2012; and the 20 through 25 YOB group (the draft-eligible group) was 97 percent, one percent greater than the previous year. Eighty-nine percent of all registrations for CY 2013 were received through electronic processes – unchanged from the previous year.

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

When activated, SSS will hold a national draft lottery, expand Agency components, contact 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 for its field personnel assets. This includes web-based training for 11,000 Board Members 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, CO. This alternative service must benefit the health, safety, and interest of our nation.

To be prepared to provide the required employment, the Agency will continue to acquire "provisional" agreements for membership in the Alternative Service Employer Network (ASEN), which will furnish the thousands of jobs for CO placement upon a return to conscription. This ongoing outreach is to the traditional CO constituency and to the many approved alternative service worker employer groups. Additionally, our State Directors and Reserve Force Officers (RFOs) will be prepared to help create and populate the ASEN with eligible employers in the event of a mobilization.

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

Objective 1 – Offer responsive customer service.

Public service excellence is a major objective of the Agency. SSS provides information pertaining to various legislative matters, policies, 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 efficient and effective human resource and procurement management.

Far-reaching improvement efforts in the SSS Human

Resources (HR) and Logistics Offices that began during FY 2013 continued in FY 2014. Key staffing gaps in HR were fully addressed and capabilities are being enhanced throughout both offices, which will support improved service delivery to all SSS customers.

In the near term, the Agency will continue to be serviced by the U.S. Office of Personnel Management (OPM) for its recruiting actions. It plans to resume in-house recruiting actions during FY 2015. SSS also began participating in the U.S. Department of Veterans Affairs' *VA for Vets* program and the OPM's *Pathways Programs.* These programs help agencies hire veterans and students/recent graduates, respectively.

The Agency is taking significant steps forward in its overall performance. Based on the 2013 Federal Employee Viewpoint Survey results, Selective Service achieved noteworthy double-digit improvement between 2012 and 2013 in two areas. In 2013's Partnership for Public Service's and Deloitte's *Best Places to Work in the Federal Government* results, the Agency achieved placement in the top 50 percent of small agencies for the first time in the history of these rankings, moving up seven places.

During FY 2014, the Logistics Office (LO) continued its close collaboration with the Financial Management Directorate to improve its coordination and accountability on procurement matters. This collaborative effort has led to the close-out of numerous unliquidated obligations from prior years and led to wide-ranging improvements in micro-purchases, contract delivery, and early error identification and correction. In addition to this, LO has made significant progress in implementing Homeland Security Presidential Directive (HSPD)–12 throughout the Agency and enhancing contract management transparency.

Objective 3 – Promote efficient and effective financial management.

Our integrated financial management system, Oracle Federal Financials (OFF), enabled the Agency to maintain a reliably consistent level of quality in its financial performance and reporting and helped to enhance budget, human capital, and performance integration. Furthermore, it has improved management of the budget execution process, which resulted in a seventh consecutive unmodified ("clean") financial audit opinion. The Agency's financial operations showed no material weaknesses and its financial statements were deemed free of any material misstatement. SSS continued to update its Fiscal Manual, policies, and procedures to ensure compliance with evolving statutes, regulations, directives, and standards.

Objective 4 – Foster efficient and effective Information Technology management.

SSS has nearly completed its multi-year technology upgrade of the Agency's hardware, software, and systems. All desktops now have standardized operating systems and the network systems hardware has been refreshed. The Agency now has two operating systems in the cloud, which meets the Federal mandate. Additionally, the independent FY 2014 Federal Information Security Management Act (FISMA) audit revealed no significant deficiencies and no material weaknesses.

Objective 5 – Promote effective and efficient management of public communications and registration awareness of Agency programs.

The Agency's public and intergovernmental affairs activities face 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 6,300 young men turning 18 every day, SSS' outreach to community leaders, other governmental and private entities, public and private influencers, and media was a major continuing strategy during FY 2014 to increase registration awareness and foster 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 expansion; and (4) 26 national exhibits. During FY 2014, SSS distributed 15 English and four Spanish radio news announcements to 12,000 stations, and three TV news announcements were released to 1,000 media outlets. "News spots" were sent to 7,000 radio stations. Additionally, the Agency distributed a national TV public service announcement. Six SSS news stories, five of which were translated into Spanish, were distributed to 10,000 English and Spanish language newspapers. SSS personnel traveled to four low compliance cities and conducted 116 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 YouTube and social network sites, to include enhancing its Facebook presence.

The Agency distributed 30,000 high school registration kits to principals and registrars across the nation. Further, SSS redesigned its official website for implementation in FY 2015. Partnership activities were implemented with the National High School Coaches Association, five minor league baseball teams in low compliance markets, the Distributive Education consortium, *Latino Magazine*, U.S. Hispanic Leadership Institute, Harlem Globetrotters Street Basketball, American Legion Boy's State, and American Legion Baseball. Finally, SSS focused its registration awareness messages through articles appearing in an array of publications by various education associations and local newspapers.

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

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 2014 budget allocation was expended in support of the Agency's Strategic Goals and Objectives.

SSS continues to refine its ability to link the amount of appropriated funds with particular program results in a given fiscal year. The Agency's integrated financial management system has helped to alleviate some of the complexity associated with this effort. In FY 2014, managers continued the practice of identifying specific program costs at their level, which assisted the effort of linking budget to performance within particular programs.

Financial Highlights

Financial Position

FY 2014 is the tenth full year of operation where the SSS audited financial statements are being submitted to OMB in compliance with the Accountability of Tax Dollars Act 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.

SSS used all available resources to satisfy its previously 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

SSS management is responsible for the integrity and objectivity of the financial information presented in the financial statements. The accompanying financial statements are prepared to report the results of SSS financial policies and operations. While these financial statements have been prepared from SSS books and records, the statements are in addition to other financial reports used to monitor and control budgetary resources. The financial statements should be read with the realization that SSS is an agency in the Executive Branch of the United States Government. 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 2014 and FY 2013 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 $13.93 million in FY 2014. Fund balances with Treasury, mostly undisbursed cash balances from appropriated funds, comprised about 47 percent of the total assets.

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

Liabilities. Liabilities are recognized when they are incurred regardless of whether or not they are covered by budgetary resources. In FY 2014, SSS had total liabilities of $4.52 million. The components of SSS liabilities were Federal Employees' Compensation Act (FECA) of $2.59 million; accounts payable, employer contributions, and payroll taxes of $0.90 million. Accrued payroll and leave, plus unfunded leave, totals $1.03 million.

Net Position. SSS net position, which reflects the difference between assets and liabilities and represents the Agency's financial condition, totals $9.41 million. This amount is broken into two categories: unexpended appropriations (amounts related to undelivered orders and unobligated balances) at $5.41 million and cumulative results of operations (net results of operations since inception plus the cumulative amount of prior period adjustments) at $4.00 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 2014 net cost of operations was $24.54 million: $24.91 million in gross costs less $0.37 million in reimbursable revenues (DoD).

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 2014 with a net position total of $9.41 million, increased from FY 2013's position of $9.08 million.

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 2014 budgetary resources totaled $25.63 million and were comprised of $22.90 million in budget authority, an unobligated balance of $1.84 million, and $0.89 million in prior year recoveries, offsetting collections, and other resources.

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 2014. For the seventh consecutive fiscal year, the Agency received an unmodified clean audit opinion. The FY 2014 independent audit showed no material weaknesses and disclosed no instance of noncompliance with laws or regulations. SSS has implemented enhanced new internal controls and is continuing to document those improved procedures in updates to the Agency's Fiscal Manual.

DIRECTOR'S FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT STATEMENT OF ASSURANCE

Selective Service System (SSS) management is responsible for establishing and maintaining effective internal controls and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act of 1982.

In accordance with the requirements of the Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Internal Control*, SSS conducted its annual assessment of the effectiveness of the organization's internal controls to support effective and efficient programmatic operations, reliable financial reporting, and compliance with applicable laws and regulations; and whether the financial management system conforms to applicable financial systems requirements.

Based on the results of this assessment, SSS provides reasonable assurance that its internal controls over the effectiveness and efficiency of operations, reliable financial reporting, and compliance with applicable laws and regulations as of September 30, 2014, were operating effectively and that no material weaknesses were found in the design or operation of its internal controls. Some reporting officials identified areas for improvement in their individual assessments, which are being addressed internally and are not of a material nature.

Further, based on the assessment, the Agency determined that its financial management system conforms to applicable financial systems requirements.

Lawrence G. Romo
November 14, 2014

Management Controls

Federal Managers' Financial Integrity Act Report on Management Control

Background

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

- Obligations and costs comply with applicable laws and regulations;
- Federal assets are safeguarded against fraud, waste, and mismanagement;
- Transactions are accounted for and properly recorded;
- 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 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 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, other laws, OMB Circular A-123, and OMB Circular A-127, *Financial Management Systems*. All SSS managers are responsible for ensuring that their programs operate efficiently, effectively, and in compliance with the aforementioned statutes and guidance. They must also ensure that financial management systems conform to applicable laws, standards, principles, and related requirements. SSS has achieved, and is committed to maintaining, a fiscal and operational environment that is free of material weaknesses.

FY 2014 Results

In FY 2014, independent audits of the Agency's financial statements and FISMA program found both to be free of any material weaknesses. The following exhibit provides a summary of the negative report of material weaknesses and all items corrected.

Exhibit 1: Summary of Material Weaknesses

Internal Controls (FMFIA Section 2)						
Statements of Assurance	Qualified Statement of Assurance					
Material Weakness	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Controls Over Financial Management	0	0	0	0	0	0
IT Security	0	0	0	0	0	0
Total Material Weaknesses	0	0	0	0	0	0

Financial Management System (FMFIA Section 4)						
Statements of Assurance	Qualified Statement of Assurance					
Non-Conformance	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Non-conformances	0	0	0	0	0	0

Required Reporting

Exhibit 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 Weaknesses	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					
Non-Conformance	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Non-conformances	0	0	0	0	0	0

Outstanding Material Weakness

No outstanding material weaknesses existed at the end of FY 2014.

New Material Weaknesses

There were no material weaknesses identified during FY 2014.

IT Security Program

Summary of Outstanding Material Weaknesses

Material Weakness Existing	SSS IT Security Program None
None	Planned Actions: NA
Planned Actions - NA	

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 2014

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

The Agency also conducted an internal self-assessment of all major functional areas to assess compliance with Agency policies and regulations.

- Registration Compliance and Verification
- General Support Network
- Integrated Mobilization Information System

Program evaluations were scheduled and conducted for the following areas:

- Registration and Registration Compliance Programs
- Registrar Program

FY 2014 Performance

This FY 2014 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 ages 18 through 25 is fundamental to mission success. To implement a "fair and equitable" draft, a 91 percent compliance rate for men ages 18 through 25 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:
At the end of FY 2014, a total of 40 states, four territories, and the District of Columbia had enacted driver's license legislation (DLL) supporting Selective Service registration: Alabama, Arizona, Arkansas, Colorado, Connecticut, Delaware, Florida, Georgia, Hawaii, Idaho, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, Maine, Maryland, 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, Wisconsin, Puerto Rico, Guam, the Commonwealth of the Northern Mariana Islands, the Virgin Islands, and the District of Columbia.

For FY 2014, the SSS set two performance goals for Objective 1.

Strategic Objective 1.1.1. Achieve and maintain registration rate of at least 91% or above for eligible males 18-25.

<u>FY 2014 Annual Performance Goal</u>: Attain registration rate above 91 percent for eligible males 18-25.

Was the goal achieved? Yes

Results:
Projected: 93 percent (18-25 YOB group). Results for this goal will not be available until the end of the calendar year. The latest information available is for CY 2013, in which the entire 18-25 YOB group registration rate was 93 percent. (See note above.)

Discussion:
Registration remains 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 online Internet registration via the SSS website (www.sss.gov) and through social media; (3) emphasis on soliciting volunteer SSS High School Registrars; (4) increased liaison with U.S. Postal Service offices – the only nationally distributed source of Selective Service registration forms; and (5) focused, cost-effective registration awareness initiatives and outreach efforts to educational and community leaders and groups. However, some of these important registration awareness initiatives/efforts were limited this fiscal year due to funding constraints.

Impact:
For CY 2013, the Selective Service national overall estimated registration compliance rate was up one percentage point over CY 2012 for men ages 18 through 25 who were required to be registered. For the 18 YOB group, the compliance rate was 72 percent, up two percentage points from CY 2012; for the 19 YOB group the rate remained 89 percent; and the 20 through 25 YOB group (the draft-eligible group) was 97 percent, up one percentage point from CY 2012.

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

Planned Actions/Schedule:
For FY 2015, 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. SSS' goal is 100 percent coverage of the nation's potential registrant population. Thus, as states enact and implement DLL, 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 its 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 2014 Annual Performance Goal: Obtain 85 percent of registrations electronically.

Was the goal achieved? Yes

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

Discussion:
Eighty-nine percent of all registrations for CY 2013 were received through electronic means – unchanged from the prior year. DLL, Internet registration at www.sss.gov, and data exchanges with various federal agencies make up the bulk of electronic registrations.

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

Planned Actions/Schedule:
Continue to maintain automated registration programs and expand where possible. Continue to provide technical assistance, where 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 2014, SSS improved the infrastructure needed to manage a military draft.

Strategic Objective 1.2.1 Be prepared to deliver personnel when needed.

FY 2014 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:
SSS continued its scheduled periodic reviews of all Agency Readiness Plans and associated Standard Operating Procedures to ensure currency and accuracy. A revision was completed on the Agency Lottery Standard Operating Procedures. All plans remain available via electronic format on the Agency's intranet. In addition, the Agency conducted a thorough and comprehensive self-assessment of policy, procedural, and operational functions that included all Agency Readiness Plans, Policy Manuals, and Operational Procedures. Results showed the Agency was well within compliance, with corrective action plans developed for any areas that may need addressing.

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

Impact:
Periodic updating of preparedness documents ensures that the Agency is able to initiate actions during a return to conscription. Integrating the National Headquarters' (NHQ) reviews with the field reviews 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 smoother implementation of these plans. For FY 2015, the Agency plans to conduct its biennial internal self-assessment which will analyze the Agency's policy, procedural, and operational functions, including all Agency Readiness Plans, Policy Manuals, and Operational Procedures. Results will determine if the Agency is in compliance and determine if corrective action plans need to be developed for any non-compliant areas.

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 2014 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:
All relevant Agency elements participated in a Personnel and Logistics framework project. The project analyzed and synchronized personnel and logistics requirements needed for mobilization. A major part of the project was the workload study that matches current national demographics with the Agency's Board Member structure. The workload study updates how board demographics should look in addition to determining where boards and supporting logistics functions would have to be placed based on current population statistics. The information derived from this study is now being incorporated into the Agency's revised Integrated Mobilization Information System (IMIS) and the follow-on Central Registrant Processing Portal (CRPP).

The Agency upgraded its web hosting capabilities and procured enhanced web-authoring software in FY 2014. This allowed the Agency to better develop and deploy electronic and web-based training to field personnel who would activate field offices as well as those who would adjudicate and process reclassification claims. In addition to electronic and web-based training, the Agency continued to develop and provide training to personnel in multiple formats, to include hard copy group and self-study training materials to ensure the widest possible dissemination of information.

Discussion:
Annual training of RFOs 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 to ensure a fair and equitable return to conscription, should it be necessary.

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.

<u>FY 2014 Annual Performance Goal</u>: Expand Alternative Service Employer Network (ASEN) training for State Directors and Reserve Force Officers (RFOs) at the local level.

Was the goal achieved? No

Results:
The plan for the ASEN has been the responsibility of NHQ personnel since the Agency's revitalization in the 1980s. The initiative to expand the ASEN training to Agency field elements was delayed to ensure sensitive issues regarding the ASEN were addressed in the training development phase. Eventually, State Directors and RFOs must have training in this area since they will be the initial personnel responsible for creating the ASEN locally in the event of a mobilization. Development of this field expertise was to be ensured by a complete overhaul of the readiness training provided to field staff. As a consequence, FY 2014 has been devoted to the development of new electronic and other format training modules that will train SSS personnel how to create an ASEN strategy for their location only in the event of a mobilization. Continued discussion and participation of the field elements is needed to ensure their understanding of this operational procedure.

Discussion:
By training field elements how to add to the ASEN in a mobilization, SSS will be able to expand civilian service options for COs required to perform alternate service in lieu of military service in the event the draft is reinstated. A concerted training 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 SSS in the event of conscription.

Impact:
The inability to add employers to the ASEN will cripple the readiness of the ASP. Training personnel how to add members to the ASEN is a significant milestone in the history of the ASP and signals a renewed 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, training activities focused on how to develop the ASEN ensures the Agency 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:
In addition to training field elements how to help create and add members to the ASEN during a mobilization, SSS will continue to seek "provisional" agreements for membership in the ASEN upon mobilization through outreach to the traditional CO constituency and with many other approved alternative service worker employer groups. To date, SSS has executed provisional agreements with several organizations. They include: Woodcrest Service Committee, Inc., United Church Board for Homeland Ministries, Mennonite Voluntary Service (an agency of the Network and the Mennonite Church), Brethren Volunteer Service (an organ of the Church of the Brethren), the Old Order Amish, and the Christian Aid Ministries' Conservative Anabaptist Service Program.

Efforts for provisional agreements for ASEN membership upon mobilization will continue. SSS is also working to establish agreements with the Corporation for National and Community Service (CNCS). An agreement with CNCS would be a significant addition to the ASEN upon a return to conscription because of its potential to place thousands of alternative service workers throughout the country.

Verification and 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 - Offer responsive customer service.

SSS implemented technology upgrades to its hardware, software, security and systems development processes. These upgrades included the standardization of all desktop IT operating systems and software, upgrades to the Agency's automated travel system, and improvements to the Agency's call center phone answering system. These upgrades have increased internal efficiencies while also improving responsiveness to external queries from potential or current registrants. 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 - Ensure efficient and effective human resource and procurement management.

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

For FY 2014, SSS set the performance goal of completing implementation of the Strategic Human Capital Management Plan (HCMP) for Strategic Objective 2.1.1.

<u>FY 2014 Annual Performance Goal</u>: Complete implementation of the Strategic Human Capital Management Plan.

Was the goal achieved? No

Results:
Although the Agency did not achieve this goal, it began the work of updating its outdated HCMP.

Discussion:
Despite not having a fully implemented HCMP in place, SSS made tremendous progress in FY 2014, including filling all permanent HR positions, including its HR Officer; resolving performance and conduct issues; and addressing its HR program deficiencies.

Impact:
The lack of a fully implemented HCMP has not adversely affected the Agency's performance. First, the previous HCMP was outdated and was not fully aligned with the Agency's Strategic Plan and senior leadership priorities. Second, the Agency made it a top priority to improve HR day-to-day and strategic performance throughout FY 2014.

Planned Actions/Schedule:
The Agency appointed a new HR Officer in FY 2014. She is beginning to work with the Agency's senior leaders on an updated HCMP that aligns with the Agency's Strategic Plan. Upon HCMP completion (targeted for FY 2015), the HR Officer will undertake implementation efforts, which is expected to be a multi-year effort. This does not mean that strategic human capital efforts have been put on hold. They have been carried out in earnest throughout FY 2014, and their benefits are already being felt throughout SSS.

For instance, HR broadened its pool of potential candidates to fill vacancies at SSS. In FY 2014, SSS formalized its participation in the U.S. Department of Veterans Affairs' *VA for Vets* program, which helps agencies hire more veterans. The Agency also completed an agreement with the OPM to participate in the *Pathways Programs*, allowing it to participate in programs that are geared toward students and recent graduates.

Also, despite the absence of an HCMP, SSS continues to take an aggressive approach to ensuring that its staff is trained and prepared. For example, the Agency's senior leaders have set aside training funds, frequently communicated training opportunities, and actively encouraged supervisors to assess and address each of their staff members' training needs in a cost-effective manner.

Verification and Validation:
The Federal Employee Viewpoint Survey may indicate improvement in some key human capital management areas.

<u>FY 2014 Annual Performance Goal</u>: Expand the use of HSPD-12 identification cards to include authentication security for all electronic activity and building access.

Was the goal achieved? No

Results:
SSS was partially successful in achieving this goal.

Discussion:
The Agency took significant steps to implement HSPD-12 during FY 2014, including the purchase of access point HSPD-12 card readers at the two remaining field locations and the implementation of the lightweight credentialing system at all Agency locations.

Impact:
The impact of not achieving this goal was minimal. Physical security is controlled at each field location and there have been no security issues. The Agency's Information Technology Office has provided close oversight of the information security aspects of HSPD-12.

Planned Actions/Schedule:
The Agency will continue to implement the HSPD-12 program, both for physical and information security. This includes the activation and use of HSPD-12 card readers at the National Headquarters and at all field locations, and requiring the use of an HSPD-12 card to access Agency information systems, whenever possible.

Verification and Validation:
It is expected that all full-time employees will use their issued HSPD-12 cards for all physical and information security access to SSS-controlled spaces by the end of FY 2015.

Objective 3 - Promote 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.

<u>FY 2014 Annual Performance Goal</u>: Complete ongoing updates of the Fiscal Manual.

Was the goal achieved? Yes

Results:
The Fiscal Manual continued to provide needed policy and procedures guidance across a broad spectrum of financial management and procurement topics.

Discussion:
None.

Impact:
The electronic format and more concisely written chapters made the manual more accessible and readable for non-financial management personnel, as well more easily modified – which will facilitate more frequent updates. Additionally, developing and publishing the revised manual addressed a long-standing audit requirement to document critical policies and procedures, and formally codify management internal controls.

Planned Actions/Schedule:
The Fiscal Manual is considered a "living" document that will be continuously revised and improved. Planned updates already include the addition of detailed process maps for key financial functions; and inclusion of desk procedures that document the roles, responsibilities, and critical tasks of individual Financial Management (FM) staff members.

Verification and Validation:
As envisioned at its inception, the SSS Fiscal Manual underwent several updates in FY 2014. Future changes or adjustments will be incorporated as necessary, but a periodic review will be performed at least annually.

Strategic Objective 2.3.2. Align budgeted funds with performance expectations.

<u>FY 2014 Annual Performance Goal</u>: 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 and tie those resources to specific 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, budgetary resources will be aligned to the Strategic Plan.

Planned Actions/Schedule:
The Agency will continue to refine its performance and budget integration by developing metrics that will demonstrate the link between invested resources to outcomes achieved. When properly developed and accurately interpreted, these metrics will inform decision making and lead to a more efficient application of Agency resources toward its goals and objectives.

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

Objective 4 - Foster efficient and effective Information Technology management.

SSS continued to update its technical environment to facilitate satisfying security and program requirements.

Information security continued to be a major focus during FY 2014, and the Agency retired one outstanding FISMA issue. It will continue efforts to resolve the four remaining issues quickly, thus ensuring the network remains secure.

Strategic Objective 2.4.1: Improve the efficiency and effectiveness of technical operations.

For FY 2014, SSS set two performance goals for Strategic Objective 2.4.1.

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

FY 2014 Annual Performance Goal: Continue the development and implementation of the registration modernization.

Was the goal achieved? Yes

Results:
SSS completed the standardization of desktop operating systems and introduced two systems into the cloud environment per federal mandate. The FY 2014 FISMA audit determined that the Agency was in substantial compliance with FISMA requirements with no significant deficiencies and zero material weaknesses.

Discussion:
The Agency awarded a contract to sustain and continue enhancements to the registration system during FY 2014. This work was completed, successfully putting the Agency in a better position to manage the registration and compliance program.

FISMA-related efforts also improved the Agency's information security program, which is needed to ensure that data remains secure.

Impact:
Partnership between SSS, the Department of Homeland Security (DHS), and the prime contractor for the SSS registration system resulted in improved network security monitoring and reduced intrusions.

Planned Actions/Schedule:
SSS achieved these goals by the end of FY 2014. Also, these projects were managed following standard project management techniques such as Earned Value Management.

Verification and Validation:
All contract terms and deliverables were met and verified by the project manager.

FY 2014 Annual Performance Goal: Ensure compliance with FISMA requirements and reporting tasks as well as protecting personally identifiable information entrusted to SSS.

Was the goal achieved? Yes

Results:
The FY 2014 audit determined that SSS was in substantial compliance with FISMA requirements and had zero material weaknesses.

Discussion:
FISMA audits occur each year, and under current SSS and Information Technology leadership, special emphasis continues to be placed upon ensuring compliance.

Impact:
Improved FISMA compliance and an improved audit report.

Planned Actions/Schedule:
FY 2014 again witnessed the Agency in substantial

compliance with zero material weaknesses and no significant deficiencies. This was the second such report the Agency had received in over ten years. Continued emphasis on FISMA compliance will ensure the security and efficiency of IT programs.

Verification and Validation:
N/A

Objective 5 - Promote 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 2014, 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 continued national economic recovery and general movement to retrain and retool one's skills. Additionally, news outlets, both print and broadcast, contacted SSS for general interviews or specific information.

Further, SSS distributed its new radio package, "He Won't Hear What You Don't Play," 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. SSS produced public service messages for TV, radio, and newspapers. The Agency manned 26 national exhibits; participated in 116 outreach meetings and initiatives; and developed social media network Internet tools promoting registration.

FY 2014 Annual Performance Goal: Improve response times 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? Yes

Results:
Data Management Center
Registration Processing: Target 18 days; Actual: 5 days
Registrant Status Information Letters: Target 15 days; Actual: 3 days
Compliance Mailings: Target 10 days; Actual: 1 day
Other Center Mailings: Target 10 days; Actual 1 day

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

Discussion:
Remarkable turnaround times were maintained during FY 2014. Like the DMC, PIA has in place internal controls to monitor turnaround times, in addition to customer feedback. Whenever a feasible programmatic fix is available, it is evaluated for improvement where economical and practical.

Impact:
Acceptable customer service levels have again been achieved in responding to written inquiries. Both the DMC and the PIA Directorate are exceeding their response time goals.

Planned Actions/Schedule:
Actively monitor workload for measurable change and be prepared to adjust staffing and/or employ other management options.

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

FINANCIAL DETAILS

Message from the Chief Financial Officer (CFO)

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

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

In FY 2014, 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.* For the seventh year in a row, I am pleased to report that as of September 30, 2014, SSS received an unmodified ("clean") financial audit opinion.

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.

Roderick R. Hubbard
November 17, 2014

Selective Service System

Audit of Financial Statements

As of and for the Years Ended
September 30, 2014 and 2013

Submitted By

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

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& COMPANY, P.C.

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Independent Auditor's Report

Director, Selective Service System

We have audited the accompanying balance sheet of Selective Service System (SSS), as of September 30, 2014 and 2013, and the related statements of net cost, statements of changes in net position, and statements of budgetary resources (financial statements) for the years then ended. The objective of our audit was to express an opinion on the fair presentation of these 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, regulations, and contracts that could have a direct and material effect on these 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, 2014 and 2013, 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. Our testing of internal control identified no material weaknesses in financial reporting.

As a result of our tests of compliance with certain provisions of laws, regulations, and significant provisions of contracts, nothing came to our attention that caused us to believe that SSS failed to comply with applicable laws, regulations, or contracts that have a material effect on the financial statements insofar as they relate to accounting matters.

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.

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of SSS, which comprise the balance sheets as of September 30, 2014 and 2013, and the related statements of net cost, statements of changes in net position, and statements of budgetary resources for the years then ended.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America. Such responsibility includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to error or fraud.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; standards applicable to financial statement audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin 14-02, *Audit Requirements for Federal Financial Statements* (the OMB audit bulletin). Those standards and the OMB audit bulletin require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments in a Federal agency, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing opinions on the effectiveness of the SSS's internal control or its compliance with laws, regulations and significant provisions of contracts. Accordingly, no opinion is expressed. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SSS as of September 30, 2014 and 2013, and the related net cost, changes in net position, and budgetary resources for the years then ended in accordance with accounting principles generally accepted in the United States of America.

OTHER MATTERS

Required Supplementary Information

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. 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 financial statements, and other knowledge we obtained during our audit of the 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The performance measures and other accompanying information are presented for the purposes of additional analysis and are not required parts of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

OTHER AUDITOR REPORTING REQUIREMENTS

Report on Internal Control

In planning and performing our audit of the financial statements of SSS as of and for the years ended September 30, 2014 and 2013, 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 audit procedures that are appropriate in the circumstances 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Our audit testing of did not identify any deficiencies in internal controls that we consider to be material weaknesses in financial reporting.

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 deficiency in internal control 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 and correct, misstatements on a timely basis. A material weakness is a deficiency or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

A summary of the status of prior year recommendations is included as Attachment 1.

<u>Report on Compliance</u>

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 the OMB audit bulletin. 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.

In connection with our audit, nothing came to our attention that caused us to believe that SSS failed to comply with applicable laws, regulations, or significant provisions of laws, regulations, and contracts that have a material effect on the financial statements insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the SSS's noncompliance with applicable laws, regulations, or significant provisions of laws, regulations, and contracts insofar as they relate to accounting matters.

<u>Restricted Use Relating to Reports on Internal Control and Compliance</u>

The purpose of the communication included in the sections identified as "Report on Internal Control" and "Report on Compliance" is solely to describe the scope of our testing of internal control over financial reporting and compliance, and to describe any material weaknesses, significant deficiencies, or instances of noncompliance we noted as a result of that testing. Our objective was not to provide an opinion on the design or effectiveness of the SSS's internal control over financial reporting or its compliance with laws, regulations, or provisions of contracts or grant agreements. The two sections of the report referred to above are integral parts of an audit performed in accordance with *Government Auditing Standards* in considering the SSS's internal control over financial reporting and compliance. Accordingly, those sections of the report are not suitable for any other purpose.

Leon Snead & Company, P.C.

Leon Snead & Company, P.C.
Rockville, Maryland
November 14, 2014

Attachment 1

Status of Prior Year Recommendations

Rec. No.	Audit Recommendations	Status as of September 30, 2013
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.	Closed.
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.	Closed.
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.	Closed.
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.	Open. SSS officials have advised us that although IMIS is undergoing redevelopment, which will improve its functionality, the system design will not support budget forecasting capability. Therefore, this recommendation remains open.
5.	Develop a project plan with user input to modify IMIS so that it better supports SSS's needs relating to RFO operations.	Open. SSS officials have advised us that although IMIS is undergoing redevelopment, which will improve its functionality, the system design will not support budget forecasting capability. Therefore, this recommendation remains open.
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.	Closed.

RESPONSE TO FISCAL YEAR 2014 AUDIT REPORT

The Selective Service System acknowledges and accepts the unqualified opinion contained in the audit report of November 13, 2014.

Recommendation: None.

SSS Response: None.

Roderick R. Hubbard
Chief Financial Officer
November 17, 2014

OVERVIEW OF FINANCIAL STATEMENTS

Purpose of the financial statements:

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

Balance Sheet
As of September 30, 2014 and 2013
(in dollars)

	2014	2013
Assets:		
Intragovernmental		
Fund Balance with Treasury (Note 2)	$6,560,800	$6,577,570
Total Intragovernmental	6,560,800	6,577,570
Accounts receivable, net (Note 3)	884	1,834
General property, plant, and equipment, net (Note 4)	7,370,133	8,210,209
Total assets	$13,931,817	$14,789,613
Liabilities:		
Intragovernmental		
Accounts payable (Note 5)	$408,884	$338,207
Other		
Employer contributions and payroll taxes payable (Note 5)	59,856	138,873
Unfunded FECA liability (Notes 5 and 6)	370,219	444,281
Other unfunded employment related liability	-	-
Liabilities for Non-Entity Assets	-	-
Total Intragovernmental	$838,960	$921,361
Accounts payable (Note 5)	422,058	961,842
Federal employee and veteran benefits (Notes 5 and 6)	2,221,641	2,508,550
Other		
Accrued funded payroll and leave (Note 5)	253,839	571,625
Employer contributions and payroll taxes payable (Note 5)	8,503	17,599
Unfunded leave (Note 5)	777,920	731,046
Total liabilities	$4,522,922	$5,712,023
Net position:		
Unexpended appropriations - other funds	5,407,659	4,549,423
Cumulative results of operations - other funds	4,001,236	4,528,167
Total net position	$9,408,896	$9,077,590
Total liabilities and net position	$13,931,817	$14,789,613

The accompanying notes are an integral part of these statements

Statement of Net Cost
As of September 30, 2014 and 2013
(in dollars)

	2014	2013
Program costs:		
Program A:		
Gross costs (Note 8)	$24,914,491	$25,742,892
Less: earned revenue (Note 9)	(370,000)	(370,000)
Net program costs	$24,544,491	$25,372,892
Net cost of operations	$24,544,491	$25,372,892

The accompanying notes are an integral part of these statements

Statement of Changes in Net Position
As of September 30, 2014 and 2013
(in dollars)

	FY 2014	FY 2013
Cumulative Results of Operations:		
Beginning balance, as adjusted	$4,528,167	$5,532,035
Budgetary Financing Sources:		
Appropriations used	21,515,131	21,859,324
Non-exchanged Revenue	-	-
Other Financing Sources (Non-Exchange):		
Imputed financing	2,502,429	2,509,700
Other	-	-
Total Financing Sources	$24,017,561	$24,369,024
Net Cost of Operations	(24,544,491)	(25,372,892)
Net Change	(526,931)	(1,003,868)
Cumulative Results of Operations	$4,001,236	$4,528,167
Unexpended Appropriations:		
Beginning Balance, as adjusted	$4,549,423	$4,642,834
Budgetary Financing Sources:		
Appropriations received	$22,900,000	$23,984,000
Other adjustments	(526,632)	(2,218,087)
Appropriations Used	(21,515,131)	(21,859,324)
Total Budgetary Financing Resources	$858,236	$(93,411)
Total Unexpended Appropriations	**$5,407,659**	**$4,549,423**
Net Position	**$9,408,896**	**$9,077,590**

The accompanying notes are an integral part of these statements

Statement of Budgetary Resources
As of September 30, 2014 and 2013
(in dollars)

	2014	2013
Budgetary Resources:		
Unobligated balance, brought forward, October 1	$1,839,840	$1,432,453
Recoveries of prior year unpaid obligations	1,041,856	939,434
Other change in unobligated balance	(526,632)	(287,901)
Unobligated balance from prior year budget authority, net	2,355,063	2,083,986
Appropriations	22,900,000	22,053,814
Spending Authority from offsetting collections	378,677	370,717
Total budgetary resources	$25,633,741	$24,508,517
Status of Budgetary Resources:		
Obligations incurred	$23,590,043	$22,668,677
Unobligated balance, end of year		
Apportioned	103,306	144,602
Unapportioned	1,940,391	1,695,238
Total unobligated balance, end of year	2,043,697	1,839,840
Total budgetary resources	$25,633,741	$24,508,517
Change in Obligated Balance:		
Unpaid Obligation, brought forward, October 1	$4,737,730	$4,381,751
Obligations incurred (Note 10)	23,590,043	22,668,677
Outlays (gross)	(22,768,814)	(21,373,265)
Recoveries of prior year unpaid obligations	(1,041,856)	(939,433)
Unpaid obligations, end of year	4,517,103	4,737,730
Memorandum (non-add) entries		
Obligated balance, start of year	$4,737,730	$4,381,751
Obligated balance, end of year	$4,517,103	$4,737,730
Budget Authority and Outlays, Net:		
Budget Authority, gross	$23,278,677	$22,424,531
Actual offsetting collections	(378,677)	(370,717)
Change in uncollected customer payments from Federal sources	-	-
Budget authority, net	$22,900,000	$22,053,814
Outlays, gross	$22,768,814	$21,373,265
Actual offsetting collections	(378,677)	(370,717)
Outlays, net	22,390,137	21,002,548
Agency outlays, net	$22,390,137	$21,002,548

The accompanying notes are an integral part of these statements

NOTES TO THE FINANCIAL STATEMENTS

As of and for the Periods ended September 30, 2014 and 2013

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 Department of Defense (DoD); however, it exists to serve DoD's emergency manpower needs if a return to conscription becomes 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 Reserve Force Officers (RFOs). State Directors, Local Board Members, and RFOs are the Agency's standby components. They serve part-time for the Agency, remaining trained and ready to be called into service in the event of a draft.

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

(b) Basis of Accounting and Presentation

The financial statements present the financial position, net cost of operations, changes in net position, and budgetary resources in accordance with U.S. Generally Accepted Accounting Principles (GAAP) and financial reporting requirements of the Office of Management and Budget (OMB) prescribed in OMB Circular A-136, *Financial Reporting Requirements*, as revised September 18, 2014. They have been prepared from the books and records of the SSS and include accounts of all funds under the control of 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 that reimburses SSS for the full cost 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 (PP&E) is full cost, 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 equipment, 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 the 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, Liabilities Not Covered by Budgetary Resources, for more 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 has 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 cost 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 percent 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 percent of base pay and matches any employee contributions up to an additional 4 percent 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 (FEHB) Program and the Federal Employees' Group Life Insurance (FEGLI) Program. 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 benefits provided to former or inactive (but not retired) employees, their beneficiaries, and covered dependents. During FY 2014 and FY 2013, the cost factors relating to FEHB were $5,169 and $5,190, respectively, per enrolled employee. During fiscal years 2014 and 2013, the cost factor relating to FEGLI was .02 percent of basic pay per enrolled employee.

(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 FY 2014 and FY 2013 to the extent directed by the OMB, such as: employees' pension, post-retirement health and life insurance benefits; and other post-employment benefits for retired, terminated, and inactive employees, which included unemployment and

workers compensation under the Federal Employees' Compensation Act (FECA) and losses in litigation proceedings. Additionally, SSS recognized imputed costs for services received from other federal agencies without reimbursement. These services included office space for DMC, Region 1, Region 2, and RFO support.

(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 DoD provides exchange revenue that is recognized when earned (i.e., when services are 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 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 the U.S. Department of Treasury (Treasury).

(o) Contingent Liabilities

Situations where any of the conditions for liability recognition are not met and there is at least a reasonable possibility that a loss or an additional loss may have been incurred should be disclosed. Statement of Federal Financial Accounting Standards (SFFAS) 5, as amended by SFFAS 12, contains the criteria for recognition and disclosure of contingent liabilities. In addition to the contingent liabilities required by SFFAS 5, the following commitments will also be disclosed: (1) an estimate of obligations related to canceled appropriations for which the reporting entity has a contractual commitment for payment and (2) amounts for contractual arrangements, which may require future financial obligations. SSS legal counsel determined that there were no circumstances involving any uncertainty as to possible loss.

NOTE 2 – FUND BALANCE WITH TREASURY

Fund Balance with Treasury consisted of the following at September 30, 2014 and 2013:

(in dollars)	2014	2013
Fund Balance:		
Appropriated Funds (general)	$6,560,800	$6,577,570
Total Fund Balance with Treasury	**$6,560,800**	**$6,577,570**
Status of Fund Balance with Treasury		
Unobligated Balance:		
Available	$103,306	$144,602
Unavailable	1,940,391	1,695,238
Obligated Balance Not Yet Disbursed	4,517,103	4,737,730
Total Status of Fund Balance with Treasury	**$6,560,800**	**$6,577,570**

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. To calculate allowances for uncollectible accounts, SSS applies different rates to its aged schedule of Accounts Receivable Due from the Public depending on the ages of the accounts receivable. SSS applies a 50 percent rate to the current uncollectible balances that are less than or equal to 365 days old and 100 percent rate to balances that are greater than 365 days old.

(in dollars)	2014	2013
Accounts Receivable from the Public		
Current		
1-180 Days Past Due	$1,333	$73
181-365 Days Past Due	435	3,595
1 to 2 Years Past Due	2,636	7,187
Over 2 Years Past Due	2,528	0
Total Billed Accounts Receivable - Public	$6,932	$10,855
Unbilled Accounts Receivable	-	-
Total Accounts Receivable - Public	6,932	10,855
Allowance for Doubtful Accounts - Public	(6,048)	(9,021)
Total Accounts Receivable - Public, Net	**$884**	**$1,834**

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 the 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, 2014 and 2013:

(in dollars)	Service Life	Acquisition Value	Accumulated Depreciation	2014 Net Book Value	2013 Net Book Value
Equipment	3-7 years	$1,440,131	$(1,019,756)	$420,375	$156,539
Information Technology Software	3 years	564,914	(401,509)	163,405	31,942
Information Technology Software	7 years	11,142,005	(4,912,099)	6,229,906	7,713,637
Internal Use Software in Development	7 years	97,973	-	97,973	308,090
Internal Use Software	10 years	474,283	(15,809)	458,474	-
Total		**$13,719,306**	**$(6,349,173)**	**$7,370,133**	**$8,210,208**

NOTE 5 – LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

The liabilities on SSS' Balance Sheet as of September 30, 2014, 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, 2014 and 2013 is as follows:

(in dollars)	2014	2013
Intragovernmental:		
Unfunded FECA Liabilities	$370,219	$444,281
Total Intragovernmental	$370,219	$444,281
Public Liabilities:		
Federal Employee and Veteran Benefits - FECA Actuarial Liability	$2,221,641	$2,508,550
Unfunded Annual Leave	777,920	731,046
Other Unfunded Employment Related Liability	-	-
Total Liabilities Not Covered by Budgetary Resources	$3,369,781	$3,683,877
Total Liabilities Covered by Budgetary Resources	1,153,141	2,028,146
Total Liabilities	**$4,522,922**	**$5,712,023**

Unfunded FECA Liabilities consists of workers' compensation claims payable to DOL, which will be funded in a future period, and an unfunded estimated liability for future workers' compensation claims based on data provided from 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 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 DOL and are paid, ultimately, by SSS.

In FY 2014 and FY 2013, SSS used estimates provided by DOL to report its 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 $2,221,641 and $2,508,550 as of September 30, 2014 and 2013, respectively, is reported on SSS' Balance Sheet. SSS also recorded amounts paid to claimants by DOL as of September 30, 2014 and 2013, of $370,219 and $444,281 respectively, but not yet reimbursed to DOL by SSS.

NOTE 7 – LEASES

SSS leases office and storage space from commercial vendors and the General Services Administration (GSA). SSS leases 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 in Colorado and Georgia, and the occupancy agreement (OA) with GSA for NHQ office space in 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. SSS has executed three long-term leases for office space. The three leases are as follows: (1) Region 2 Headquarters in Smyrna, Georgia, (2) Region 3 Headquarters in Denver, Colorado, and (3) National Headquarters in Arlington, Virginia.

Until June 2014, Region 2 Headquarters operated under a ten-year lease, which was initiated in January 2004 and expired in January 2014. From January 2014 through May of 2014, Region 2 Headquarters operated under a month-to-month lease. As a cost saving measure, in June 2014, Region 2 Headquarters relocated from its leased space to Dobbins Air Reserve Base (ARB) in Marietta, Georgia. In lieu of rent, Region 2 Headquarters will pay operating costs.

The lease for the Region 3 Headquarters is a five-year lease, which was initiated in January 2006, extended in September 2010, and will expire in December 2015. Relocation plans include, but are not limited to, moving to Buckley Air Force Base or to GSA federal space – either of which could reasonably be expected to reduce monthly expenses. 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 FY 2014 and FY 2013, the monthly cost for the Region 3 lease was $7,835.

Office space for National Headquarters was obtained through a GSA OA, which expired on October 27, 2013. A new OA became effective on October 28, 2013, with a total cost through FY 2014 of $752,974. Historically, base rent has escalated from 1 percent to 2 percent each year and is adjusted annually for operating costs (3 percent) and real estate taxes. Because the lessor, Monday Properties, had not increased the NHQ OA cost for several years, the most recent adjustment increased costs by approximately 43 percent. Future years' payments under the new OA are as follows:

(in dollars)	2014	2013
Fiscal Year		
2014	-	$744,652
2015	$1,074,453	724,959
2016	1,012,601	660,751
2017 [1]	998,020	643,618
2018	1,007,213	650,054
2019 (October 1 - 28, 2018)	95,317	-
Total Future Lease Payments	**$4,187,605**	**$3,424,034**

[1] Reflects lease payment reduction anticipated from Region 3 headquarters' relocation to Buckley AFB

NOTE 8 – Intragovernmental Costs

(in dollars)	2014	2013
Intragovernmental Costs		
Intragovernmental Costs	$10,399,132	$10,287,092
Public Costs	14,515,360	15,455,800
Total Program Cost	**$24,914,492**	**$25,742,892**
Intragovernmental Earned Revenue	$370,000	$370,000
Public Earned Revenue	-	-
Total Program Earned Revenue	**$370,000**	**$370,000**

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, the General Services Administration, the 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 derived from transactions in which SSS is reimbursed for services performed for other federal agencies.

NOTE 9 – EXCHANGE REVENUE

The SFFAS 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 FY 2014 and FY 2013, SSS earned $370,000 in each respective fiscal year under a DoD reimbursable agreement. DoD reimbursed SSS for the indirect labor costs that SSS incurred in mailing DoD materials as inserts along with SSS acknowledgment letters, and in managing and reporting on this annual reimbursable agreement. SSS was also reimbursed for the difference between what it was 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 FY 2014 and FY 2013 consisted of the following:

(in dollars)		2014	2013
	Apportionment Category	**Obligations**	**Obligations**
Obligations Incurred:			
Direct Obligations	A	$23,220,043	$22,298,677
Reimbursable Obligations	B	370,000	370,000
Total Obligations Incurred		**$23,590,043**	**$22,668,677**

NOTE 11 – UNDELIVERED ORDERS AT THE END OF THE PERIOD

Undelivered orders are purchase orders issued by SSS during FY 2014 or FY 2013 for which delivery of the required product or service did not occur as of September 30, 2014 or 2013, respectively. It is anticipated that these undelivered items will be provided in future periods and will require resources obligated during FY 2014 or FY 2013.

(in dollars)	2014	2013
Undelivered Orders	$3,363,963	$2,709,584
Total Undelivered Orders	**$3,363,963**	**$2,709,584**

NOTE 12 – EXPLANATION OF DIFFERENCES BETWEEN THE SBR AND THE BUDGET OF THE US GOVERNMENT

SFFAS 7 calls for explanation of material differences between the 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 containing FY 2013 actual amounts was released on March 4, 2014, and can be found on the OMB website (http://www.whitehouse.gov/omb). The President's Budget with FY 2014 actual amounts has not yet been published, but is expected to be released in February 2015. As such, the FY 2014 President's Budget actual amounts were not available at the time these financial statements were prepared. The President's Budget, when published, will be available on the OMB website provided above.

A comparison of the FY 2013 Statement of Budgetary Resources to the President's Budget is shown in the following table:

FY 2013 ($Million)	Budgetary Resources	Obligations Incurred	Net Outlays
Combined Statement of Budgetary Resources	$24	$22	$21
Unobligated Balance Not Available	2	0	0
Total Adjusted Balance	$22	$22	$21
Budget of the U.S. Government [(1)]	$22	$22	$21
Difference	**$0**	**$0**	**$0**

[(1)] Unavailable unobligated balances 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 FY 2014 and FY 2013 budgetary resources obligated and the net costs of operations for the quarters that ended September 30 are shown in the table below.

As of September 30, 2014 and 2013
(in whole dollars)

Budgetary Resources Obligated	2014	2013
Obligations Incurred	**$23,590,043**	**$22,668,677**
Less: Spending Authority from Offsetting Collections and Recoveries	(1,050,533)	(940,151)
Obligations Net of Offsetting Collections and Recoveries	22,539,510	21,728,526
Less: Offsetting Receipts	(370,000)	(370,000)
Net Obligations	22,169,510	21,358,526
Imputed Financing from Costs Absorbed by Others	2,502,429	2,509,700
Other	-	-
Net Other Resources Used to Finance Activities	2,502,429	2,509,700
Total Resources Used to Finance Activities	$24,671,939	$23,868,226
Resources Used to Finance Items Not Part of the Net Cost of Operations		
Change in Undelivered Orders	$654,379	$(500,797)
Resources that Fund Expenses Recognized in Prior Periods	-	-
Resources that Finance the Acquisition of Assets or Liquidation of Liabilities	605,158	267,265
Other Resources that do not Affect Net Cost of Operations	-	-
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	1,259,537	(233,532)
Total Resources Used to Finance the Net Cost of Operations	$23,412,402	$24,101,758
Components Requiring or Generating Resources in Future Periods		
Increase/Decrease in Annual Leave Liability	$46,875	$41,559
Increase in Exchange Revenue Receivable from the Public	3,924	(2,903)
Other	-	-
Total Costs that will Require or Generate Resources in Future Periods	$50,799	$38,656
Components not Requiring or Generating Resources		
Depreciation and Amortization	$1,709,401	$1,743,311
Revaluation of Assets or Liabilities	(264,166)	(341,573)
Bad Debt	(2,974)	3,360
Other (Unfunded Leave and FECA Actuarial)	(360,970)	(172,620)
Total Components of Net Cost that will not Require or Generate Resources	1,081,290	1,232,478
Total Components of Net Cost that will not Require or Generate Resources in the Current Period	1,132,089	1,271,134
Net Cost of Operations	$24,544,491	$25,372,892
Statement of Net Cost	$24,544,491	$25,372,892

Appendix

FY 2014 Performance Chart

Agency-wide Annual Performance Results and Targets

Performance Goals	Objective	Actual 2009	Actual 2010	Actual 2011	Actual 2012	Actual 2013	Actual 2014
Maintain the Agency's Readiness Plans which include the Call and Deliver, Reclassify, Alternative Service, and the Lottery Standard Operating Procedures.	1.2.1	100%	100%	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	100%	100%	100%	100%	100%
Attain registration rate above 90 percent for eligible males 18-25.	1.1.1	100%	100%	100%	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	85%	85%	85%	25%(1)	25%	25%
Complete implementation of the Homeland Security Presidential Directive (HSPD-12) initiative.	2.2.1	5%	100%	100%	70%(1)	70%	80%
Update the Fiscal Manual.	2.3.1	60%	60%	60%	60%	100%(2)	100%
Continue Performance and Budget integration.	2.3.2	75%	100%	100%	100%	100%	100%
Continue the development and implementation of the registration modernization project.	2.4.1	10%	25%	100%	100%	100%	100%
Ensure compliance with FISMA requirements and reporting tasks as well as protecting personally identifiable information entrusted to SSS.	2.4.1	10%	25%	50%	100%	100%	100%

(1)FY 2012 results adjusted downward based on FY 2013 improved analysis of actual status.

(2)The Fiscal Manual update is complete. There will be ongoing revisions as improvements are identified.

Performance Goals	Objective	Actual 2009	Actual 2010	Actual 2011	Actual 2012	Actual 2013	Actual 2014
DMC: Improve response times, in accordance with provisions of the Agency's Administrative Services Manual, for all types of responses (SIL, Compliance receipts, Reg. processing, all other correspondence):	2.5.1	27 days	40.75 days	21 days	18 days	4 days	2 days
PIA: Congressional, media, Freedom of Information Act and Privacy Act customers, registrants, the general public, etc.	2.5.1	8 days	2.7 days	2 days	2 days	2 days	2 days

Glossary

Abbreviations and Acronyms

Terminology	Acronym
Air Reserve Base	ARB
Alternative Service Employer Network	ASEN
Alternative Service Program	ASP
Alternative Service Worker	ASW
Annual Performance Plan	APP
Calendar Year	CY
Central Registrant Processing Portal	CRPP
Civil Service Retirement System	CSRS
Conscientious Objector	CO
Corporation for National and Community Service	CNCS
Data Management Center	DMC
Department of Defense	DoD
Department of Homeland Security	DHS
Department of Labor	DOL
Driver's License Legislation	DLL
Federal Accounting Standards Advisory Board	FASAB
Federal Employees' Compensation Act	FECA
Federal Employees' Group Life Insurance	FEGLI
Federal Employees Health Benefit	FEHB
Federal Employees Retirement System	FERS
Federal Information Security Management Act	FISMA
Federal Managers' Financial Integrity Act	FMFIA
Financial Management	FM
Fiscal Year	FY
General Services Administration	GSA
Generally Accepted Accounting Principles	GAAP
Government Accountability Office	GAO
Government Performance and Results Act	GPRA
Homeland Security Presidential Directive-12	HSPD-12
Human Capital Management Plan	HCMP
Human Resources	HR
Integrated Mobilization Information System	IMIS
Interactive Voice Response	IVR
Local Board	LB
Local Board Member	LBM
Logistics Office	LO
Military Entrance Processing Station	MEPS
Military Selective Service Act	MSSA
National Headquarters	NHQ
Occupancy Agreement	OA
Office of Management and Budget	OMB
Office of Personnel Management	OPM
Oracle Federal Financials	OFF
Other Post-Employment Benefits	OPEB
Performance and Accountability Report	PAR
President's Management Approach	PMA
Property, Plant, and Equipment	PP&E
Registration Compliance Statistical Information	RCSI
Reserve Force Officer	RFO
Selective Service System	SSS
State Director	SD
Statement of Budgetary Resources	SBR
Statement of Federal Financial Accounting Standards	SFFAS
Strategic Plan	SP
Year of Birth	YOB