Performance and Accountability Report

Fiscal Year 2018

SELECTIVE SERVICE SYSTEM

December 21, 2018

To obtain copies of this report,

Write to:
Selective Service System
National Headquarters
Attn: Financial Management
Arlington, VA 22209-2425

Telephone:
1-800-877-8339 (TTY) or
703-605-4022

Facsimile:
703-605-4030

Email:
information@sss.gov

Web:
https://www.sss.gov/Reports/Financial-Reports

From the Director

The Selective Service System (SSS) documents responsibility and accountability through the implementation of our Strategic Plan, Performance Budget, and the FY 2018 Performance and Accountability Report (PAR). Leadership and staff reviewed and assessed program performance and financial management systems to assure the agency's alignment with the Government Performance and Results Act, the Government Management Reform Act, and the Federal Managers' Financial Integrity Act.

I am pleased to report that SSS met all mandates of the Federal Information Security Management Act (FISMA) audit with no material weaknesses in the agency's IT security program. This achievement is a direct reflection of our managers' focus and commitment to improve IT security.

The agency also had a successful audit of our Fiscal Year 2018 and 2017 financial statements. The audit found that our financial statements were fairly presented and contained no material misstatements. The auditors did identify weaknesses in our internal controls, and we will use their recommendations to further strengthen our financial processes and procedures.

In FY 2018, the SSS undertook a major initiative to address previously unfunded technology life-cycle replacement and modernization with a time structured plan. A major reorganization was undertaken to increase focus on technology modernization. Supplementary funding for the FY 2019 budget will be employed to move SSS data management and telecommunications operations toward excellence achievable by the close of FY 2020.

Donald M. Benton
December 20, 2018

TABLE OF CONTENTS

MANAGEMENT'S DISCUSSION AND ANALYSIS

PERFORMANCE DETAILS

FINANCIAL DETAILS

ADDITIONAL INFORMATION

APPENDIX

GLOSSARY

MANAGEMENT'S DISCUSSION AND ANALYSIS

AGENCY AT A GLANCE

MISSION

The agency mission as defined in the Military Selective Service Act (MSSA) [50 U.S.C., 3801 *et seq*.], is to be prepared to provide trained and untrained personnel to the DoD in the event of a national emergency and to be prepared to implement an alternative service program for registrants classified as conscientious objectors.

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 (SSS) 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.

The primary 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 through the lottery for testing and evaluation for military service by a Military Entrance Processing Station (MEPS).

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 the two-year service requirement.

As the agency embraces its traditional mission, it also focuses on the future. The SSS leadership understands that both national and international events require fresh perspectives and a clear recognition of changing realities. 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 100 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 1917, the Selective Service Act established SSS as an independent federal civilian agency, while the Selective Training and Service Act of 1940 initiated the first draft to conscript during peacetime. 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 used its resources as efficiently and effectively as possible and appropriately adjusted program readiness to satisfy budgetary constraints and policy guidance.

ORGANIZATION

The SSS has a diverse cadre of full-time 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 volunteer civilian men and women who serve as volunteer local, district, and national appeals board members. When activated, these citizen volunteers will determine the classification status of local men seeking exemption or deferment, based on conscientious objection, hardship to dependents, or their status as ministers or ministerial students, as well as postponements for college students finishing their current semester or college seniors enrolling for their last full academic year. Additionally, several thousand uncompensated volunteer private citizens are participating in SSS registrar programs and are authorized to administer and receive registrations from young men.

PERFORMANCE HIGHLIGHTS

GOALS OVERVIEW

The SSS has 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) 2017, the latest complete year of registration statistics, the national overall estimated registration compliance rate was 91 percent, down one percentage point from CY 2016 for men ages 18 through 25 who were required to be registered. For the 18 year-of-birth (YOB) group, the compliance rate was 70 percent; for the 20 YOB group, the rate was 92 percent; and for the 25 YOB group, the annual compliance rate sat at 97 percent.

The SSS management review of registration trends revealed a disconcerting decline in 18-year-olds' registration among residents of California, Oregon, and the Pacific territories. Additional outreach to low registration states and territories began in FY 2018, and will accelerate in FY 2019. Establishing a Region IV office in FY 2019 is a cost-effective means of increasing agency presence on the West Coast. The continued population growth of California for 18- to 25-year-old men is influenced by immigration, including the high birth rate among immigrant families. The SSS mission requires an increased focus on registering this key demographic, and establishing Region IV will facilitate that goal.

For FY 2018, over 90 percent of all registrations were received through electronic processing. Of the three major areas of electronic registration, 43 percent were from driver's license registrations, 25 percent from the Department of Education, and 20 percent from the Internet (www.sss.gov).

Note: The SSS registration compliance rates are based on the previous calendar year data and not by fiscal year. The SSS used population figures, based on calendar year data from multiple data sources, to estimate its annual registration compliance rates. When SSS is the sole data source, then calculations and estimates are by fiscal year.

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

When activated, SSS will hold a national draft lottery; expand agency components; contact registrants who have been selected by lottery; arrange for their transportation to the MEPS for physical, mental, and moral evaluation; and, as required, send induction orders. After 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 U.S. Armed Forces.

The SSS exercises the ability to hold a lottery and create draft orders for examination or induction to demonstrate the capability is available and robust. Exercises in FY 2018 led to an expanded total mobilization plan for substantial enhancements to the SSS registration data system. A realignment of FTEs to software development accelerated the enhancement of delivery. This pace will be sustained through deployment of additional contracted resources in FY 2019 and FY 2020.

The SSS continues to provide training for its field personnel. 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 any registrant classified as a conscientious objector (CO). This alternative service must benefit the health, safety, and interest of our nation.

To be prepared to provide the required employment, the agency continues to acquire "provisional" agreements for membership in the Alternative Service Employer Network (ASEN), which will furnish jobs for CO placement upon a return to conscription. The agency also maintains a framework to manage COs throughout the 24-month term.

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. The 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 database that 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 U.S. citizenship for male immigrants.

Objective 2: Ensure efficient and effective human resource management.

In FY 2018, the SSS Human Resources (HR) office continued building on earlier enhancements to reorganize the department, streamline processes, and continuously improve the ability to recruit, hire in a timely manner, train, and retain the most productive and satisfied workforce of any small agency in the federal government.

In addition to recruiting and hiring the right people, for the right job, in a timely manner, the HR staff further leveraged the Office of Personnel Management's (OPM's) "USA Suite" of end-to-end talent management systems. SSS began using USA Performance to automate and streamline the performance appraisal process throughout the entire performance rating cycle.

Objective 3: Promote efficient and effective financial management.

The agency continues to effectively execute its financial management operations. For example, SSS submitted an increase to its FY 2019 budget. With the additional resources, the agency will have the people, expertise, and upgraded systems necessary to initiate needed modernization of critical systems infrastructure sustained through an informed lifecycle management plan.

The agency processed more than 500 purchase orders for nearly $9.3 million. It implemented an advanced inventory control system with the financial interface to more effectively track its capital investments, manage receipt and issuance of equipment, and eliminate the need for manual processing. SSS also completed a major habitability and productivity enhancement project to upgrade employee workspaces.

The agency met its goal with respect to the annual financial audit. Independent auditors issued an unmodified opinion on its financial statements. The audit did disclose weaknesses in SSS internal controls, and a corrective action plan is in development.

Objective 4: Foster efficient and effective information technology management.

To further improve SSS mobilization capability, the agency undertook a reorganization of the Operations and Information Technology Directorate in FY 2018. The headquarters order of August 15, 2018, established separate directorates for Operations and for Information Technology and created the redefined Chief Information Officer (CIO) position to include the title of Associate Director for Information Technology. Four positions were re-defined to create branch managers for system development, system administration, security, and network administration. A vacant FTE position was redefined as the Deputy Chief Information Officer/ Senior Agency Official for Privacy.

The independent FY 2018 Federal Information Security Management Act (FISMA) audit revealed no material weaknesses. Also, the agency continued to improve its continuous monitoring capabilities to ensure the data it's entrusted to protect remains secure.

The agency also improved the registration, compliance, and verification (RCV) system used to manage registration records of young men registering for a possible military draft. During FY 2018, this system was updated to ensure operational capabilities were maintained for the foreseeable future.

Objective 5: Promote efficient and effective management of public communications and registration awareness of agency programs.

With nearly 6,000 young men turning 18 every day, the agency's outreach to community leaders, other governmental and private entities, public and private influencers, and media was a major continuing strategy during FY 2018 to increase registration awareness and foster public understanding of the agency's mission.

Extensive outreach to states and territories by the SSS Director, with regional office assistance, led to favorable regional efforts increasing registration. Systems and website were upgraded to provide for the addition of registrants' email addresses for the first time. A new public poster and notice campaign was undertaken targeting states with low registration rates.

STRATEGIC PLANNING AND REPORTING

The SSS Strategic Plan was rewritten and updated and was the product of internal evaluations of the agency's statutory responsibilities viewed in light of new challenges, fiscal issues, and the needs of agency's customers. Measurement of the agency's institutional progress toward improved programmatic activities, service to customers, and the prudent management of fiscal resources was the basis for the development of this plan.

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 2018 budget allocation was expended in support of the agency's strategic goals and objectives.

The 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 2018, managers continued the practice of identifying specific program costs at their level, which assisted in the effort of linking budget to performance within particular programs.

FINANCIAL HIGHLIGHTS

Financial Position

Selective Service System's audited financial statements are submitted to the Office of Management and Budget (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 stated strategic goals and objectives. The financial statements and data reflected in this report have been prepared from agency accounting records in conformity with Generally Accepted Accounting Principles (GAAP) in the United States of America, prescribed by the Federal Accounting Standards Advisory Board (FASAB).

Limitations of the Financial Statements

SSS financial management is responsible for the integrity and objectivity of the financial information presented in the statements prepared to report the results of financial operations and policies. While they are prepared from SSS ledger accounts and records, additional financial reports are used to monitor and control budgetary resources. The financial statements should be read with the understanding that SSS is an agency within the Executive Branch of the United States government. Additionally, the unfunded liabilities reported in the statements cannot be liquidated as ongoing operations are subject to the enactment of appropriations.

Discussion and Analysis of Financial Statements

Selective Service System's FY 2018 and FY 2017 financial statements report the agency's financial position and results of operations on an accrual accounting basis. 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 footnotes, which provide a description of the agency and significant accounting policies used to develop the statements. All statements are prepared in accordance with OMB Circular A-136.

Consolidated Balance Sheet

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

Assets. Assets represent agency resources which have future economic benefits. SSS assets totaled $9.17 million in FY 2018. Fund balances with Treasury, mostly undisbursed cash balances from appropriated funds, comprised about 72 percent of the total assets.

Twenty-seven percent of SSS assets were comprised of general property, plant, and equipment. SSS does not maintain any cash balances outside of the U.S. Treasury and does not have any revolving funds or trust funds.

Liabilities. Liabilities are recognized when incurred regardless of coverage by budgetary resources. In FY 2018, SSS had total liabilities of $4.12 million. The components of liabilities were Federal Employees' Compensation Act (FECA) and veteran benefits of $1.61 million; Accounts payable, employer contributions, accrued payroll and leave, plus unfunded leave, totaled $2.51 million.

<u>Net Position</u>. SSS net position reflects the difference between assets & liabilities while also representing the agency's financial position; totaling $5.05 million. The amount is divided into two categories: 1) unexpended appropriations of $4.96 million, and 2) the cumulative result of operations at $.09 million.

STATEMENT OF NET COST

The Consolidated Statement of Net Cost represents the cost to operate the agency. Net costs are comprised of gross costs less earned revenues.

FY 2018 net cost of operations was $24.79 million: $25.16 million in gross costs less $0.37 million in reimbursable revenues (DoD).

STATEMENT OF CHANGES IN NET POSITION

The Consolidated Statement of Changes in Net Position reports changes in net position during the reporting period. SSS ended FY 2018 with a net position total of $5.05 million, a $0.26 million decrease from the FY 2017 position of $5.31 million.

STATEMENT OF BUDGETARY RESOURCES

The Combined Statement of Budgetary Resources focuses on available appropriations and reimbursable agreements, their status (obligated or unobligated) at the end of the reporting period, and the relationship between the available appropriations, reimbursable agreements and the corresponding outlays (collections and disbursements). Selective Service's FY 2018 budgetary resources totaled $25.03 million in budget authority.

FINANCIAL MANAGEMENT

The SSS Financial Management successfully managed resources to deliver financial management services to the agency and met all external financial reporting requirements in FY 2018. The FY 2018 independent audit disclosed material weaknesses. The causes for this are known, and a corrective action plan is in development. In the meantime, the agency continues to refine and enhance internal controls to improve financial management policies, processes, and procedures; and to document those changes in updates to the agency's Fiscal Manual.

Director's FMFIA Statement of Assurance

THE DIRECTOR OF SELECTIVE SERVICE
Arlington, Virginia 22209-2425

DIRECTOR'S FMFIA STATEMENT OF ASSURANCE

Selective Service System's (SSS) management is responsible for managing risks and maintaining effective internal control to meet the objectives of Sections 2 and 4 of the Federal Managers' Financial Integrity Act. SSS conducted its assessment of risk and internal control in accordance with OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. Based on the results of this assessment, the Agency can provide reasonable assurance that internal control over operations, reporting, and compliance were operating effectively as of September 30, 2018, except for the following material weaknesses reported:

- Compliance with OMB Circular A-123 (Enterprise Risk Management)
- Internal control issues noted during interim testing

Donald M. Benton

Donald M. Benton
November 1, 2018

MANAGEMENT CONTROLS

FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT REPORT ON MANAGEMENT CONTROL

Background

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

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

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

Additionally, 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.

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

The SSS operates a broad internal control program to ensure compliance with FMFIA requirements, the Federal Financial Management Improvement Act, OMB Circular A-123 Appendix C (*Requirements for Payment Integrity Improvement*), OMB Memorandum M-15-02, OMB Memorandum M-13-23, and other applicable laws, regulations, and circulars. 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.

FY 2018 Results

In FY 2018, an independent audit found the agency's FISMA program to be free of any material weaknesses. An independent audit of the agency's financial statements identified two material weaknesses: (1) compliance with OMB Circular A-123 (Management's Responsibility for Enterprise Risk Management and Internal Control) and (2) internal control weaknesses (accounting) identified during interim testing. 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	1	0	0	0	1
IT Security	0	0	0	0	0	0
Total Material Weaknesses	0	1	0	0	0	1

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	Qualified					
Material Weakness	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Controls Over Financial Management	0	1	0	0	0	1
Total Material Weaknesses	0	1	0	0	0	1

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	Qualified					
Material Weakness	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Non-conformances	0	0	0	0	0	0

Outstanding Material Weaknesses

No previously identified material weaknesses existed at the end of FY 2018.

New Material Weaknesses

1 new material internal control weaknesses was identified during FY 2018.

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 2018

Management reviews for the agency's 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
- Integrated Mobilization Information System

Program evaluations were scheduled and conducted for the following areas:

- Registration and Registration Compliance Programs
- Registrar Program

FY 2018 PERFORMANCE

This FY 2018 Performance and Accountability Report (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 90 percent compliance rate for men ages 18 through 25 is required.

Significant Activity:
At the end of FY 2018, 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, Guam, the Commonwealth of the Northern Mariana Islands, Puerto Rico, the Virgin Islands, and the District of Columbia.

Note: *Two performance goals established for Objective 1.*

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

FY 2018 Annual Performance Goal:
Attain registration rate above 90 percent for eligible males 18-25.

Was the goal achieved? Yes

Results:

Projected: 93 percent 18-25 YOB Groups),
Actual: 91 percent.

Discussion:
Registration continues to remain 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) enacting and implementing driver's license legislation (DLL) encouraging registration with Selective Service to obtain a driver's license, driver's permit, or an identification card; (2) using online registration through Selective Service's website, www.sss.gov; (3) soliciting volunteer Selective Service registrars; (4) partnering with U.S. Postal Service offices, the only universal source of availability of Selective Service registration forms; and (5) focusing on cost-effective registration awareness initiatives and outreach efforts to inform educational and community leaders and groups.

Impact:
For CY 2017, the Selective Service national overall estimated registration compliance rate was down one percentage point from CY 2016 for men ages 18 through 25 who were required to be registered. For the 18 year of birth (YOB) group, the compliance rate was 70 percent; for the 20 YOB group, the rate was 92 percent; and for the 25 YOB group, the annual compliance rate was 97 percent.

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

Planned Actions / Schedule:
For FY 2019, 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. Selective Service's 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. SSS will also emphasize our high school registrar program to reach our most important age group: 18 year olds. The message focuses on compliance with the law and the potential to gain access to significant benefits such as federal educational assistance; federal, state and local employment; and job training and certification programs.

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. The 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 2018 Annual Performance Goal:
Obtain 85 percent of registrations electronically.

Was the goal achieved? Yes

Results:
Projected: 89 percent,
Actual: More than 90 percent of total.

Discussion:
For FY 2018, more than 90 percent of all registrations were received through electronic processing. The three major areas of electronic registration were 43 percent from driver's license registrations, 25 percent from the Department of Education, and 20 percent from the Internet (www.sss.gov).

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

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 in a timely manner.

Significant Activity:
During FY 2018, SSS improved and exercised the infrastructure needed to manage a military draft.

Strategic Objective 1.2.1 – Be prepared to deliver personnel when needed.

FY 2018 Annual Performance Goal:
Enhance agency's mission readiness through capability and capacity assessment, exercise, and evaluation.

Was the goal achieved? Yes

Results:
In response to an extensive evaluation of agency training and readiness processes, procedures, and material, SSS developed updated training materials and directives for all agency employees, Reserve Force Officers (RFOs), and uncompensated employees. SSS continued to update our capstone standing training policies and directives.

In FY 2017, the Selective Service developed an exercise strategy that combines enhanced planning, innovative training, and realistic exercises to strengthen agency's national preparedness and response capabilities. In FY 2018, SSS began the implementation of the exercise plan by holding first an end-to-end exercise of the lottery process, followed by an exercise testing the capability of internal SSS systems to interface and use the results of the lottery exercise to create notional examination and induction orders.

Both exercises highlighted the agency's ability to perform the induction mission should it be called upon to do so.

Additionally, in FY 2018 SSS exercised the Continuity of Operations Plan (COOP) Program. During the exercise, the capability to transfer and operate mission essential functions remotely (in this case near our Region II Headquarters outside Atlanta, GA) was demonstrated.

Discussion:
Assessment, exercise, and evaluation of core competencies and critical capabilities ensure organizational mission readiness and align with the agency's Strategic Plan.

Impact:
The SSS exercises assure organizational mission readiness. Coordination, alignment, and prioritization of these efforts ensure the agency is able to initiate actions should a return to conscription be necessary.

Planned Actions / Schedule:
SSS will continue to implement the exercise plan in FY 2019. The agency will test functionality and interfaces for the portion of our system that manages initial classification of examinees at the Military Entrance Processing Station. SSS will also update as necessary the exercise plan to address any needed realignment with the Strategic Plan.

SSS will also continue to manage its COOP Program and will participate in FEMA's Exercise Eagle Horizon in FY 2019.

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 2018 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:
Training the workforce is a critical aspect of the agency's success. SSS Region Headquarters ensured that more than one third of the dedicated volunteer workforce was trained in the handling and processing of reclassification claims.

In addition, the agency continued to upgrade its web hosting capabilities and initiated a project (to be completed in FY 2019) to better deliver and record completion of training electronically. The agency completed a review and update of the training our volunteers receive upon joining the program.

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:
Periodically update training plans and materials as necessary. Complete the project to better deliver and record electronic training.

Verification and Validation:
Routine training evaluations are utilized to improve content delivery.

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

Strategic Objective 1.3.1 – Plan for timely job placements of alternative service workers (ASWs) in a mobilization, when needed.

FY 2018 Annual Performance Goal:
Expand the Alternative Service Employer Network (ASEN) training for state directors and RFOs at the local level.

Was the goal achieved? Yes

Results:
In FY 2018, our RFOs, state directors, and volunteer workforce received targeted training on strategies for building employer networks with the goal of developing a more consistent approach to creating the nationwide alternative service jobs network that will be required should the nation ever return to induction.

Discussion:
The new alternative service program mobilization planning strategy places regional personnel front and center in the building of state, local, and federal AWS employer networks.

Shifting the focus of that planning strategy one level up, from the state directors and RFOs to the Region Offices, lends the planning process the higher level of authority it requires to be more effective and efficient. Information sharing and symmetry in design and thinking are now automatic where they were previously difficult to ensure because the foundations of mobilization planning were being laid in dozens of separate and not inter-related offices instead of one. In this instance, benefits are derived from the control inherent in top-down planning.

Impact:
The shift in training focus has re-energized alternative service program-related mobilization planning. Region staff now provides better guidance to, and oversight of, the state directors whose responsibility will be to build the state and local ASW employer networks

The agency is now better prepared to be the national security insurance policy and protect of the rights of those conscientiously opposed to participation in war.

Planned Actions / Schedule:
The alternative service program is a major focus area in FY 2019. Building off the successful training in FY 2018, the majority of the agency's effort will be on engaging in provisional Memoranda of Understanding with potential employers.

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.

The agency's website (https://www.sss.gov) permits men to register with the SSS and to verify a registration online. This site is operational 24/7, 365 days a year, with the exception of scheduled maintenance windows that normally occur for just a few hours per week. Online registration makes it easy for a young man to meet his obligation to register for a possible military draft and ensures he remains eligible for federal student loans, job training, and other benefits tied to the registration requirement.

The agency continues to work with the Department of Homeland Security to improve its security posture through implementation of new continuous monitoring capabilities. Data security is a top priority concern for the agency. It maintains one of the largest federal databases containing personally identifiable information.

Objective 2: Ensure efficient and effective human resource management.

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

FY 2018 Annual Performance Goal: Monitor, evaluate, and revise the strategic Human Capital Management Plan (HCMP) to ensure an effective workforce with the right people, in the right place, at the right time, doing the right work across the entire agency.

Was the goal achieved? Yes

Results:
The 2018 HCMP was monitored and evaluated. Many of the same trends that impacted the workforce when the HCMP was implemented were still factors in 2018, such as information systems and technology, development of employees, loss of institutional knowledge, and performance culture.

The agency will continue to identify critical skills gaps in our occupational series, seek innovative ways to reduce the gaps, and improve the culture of performance. The HCMP ensures across-the-board strategic alignment with the agency's mission, promotes a results-oriented work culture, and enables the agency's leadership to attain measurable performance results.

Discussion:
The HCMP is structured around five elements identified in the Human Capital Assessment and Accountability Framework (HCAAF) that OPM established via 5 U.S.C. 1103(c). The architecture is:

Element 1 – Strategic Alignment
Element 2 – Leadership and Knowledge Management
Element 3 – Results-Oriented Performance Culture
Element 4 – Talent Management
Element 5 – Accountability

Impact:
These elements support the agency's human capital and help us focus on:

- Improving morale
- Improving communications
- Improving the work environment
- Increasing the emphasis on responsibility and accountability
- Enhancing employee training opportunities
- Increasing efficiency through state-of- the art technology
- Shaping the workforce

All of these elements are interrelated and serve the common purpose of producing and supporting a workforce to meet the agency's mission.

Planned Actions / Schedule:

SSS already has in place a wide variety of programs, activities, and tools to address issues identified during the development of the HCMP, such as the flexible and compressed work schedule option, and a telework program that covers nearly 67 percent of all employees. The agency highlighted a number of goals that merit special emphasis where the expenditure of resources can be expected to yield the greatest benefits.

These are organized under the five HCAAF elements listed above and include supporting activities and broad key efforts linked to the specific human capital goals. Measures and expected outcomes are identified for each of the key efforts as well.

The implementation of these solutions greatly enhances the agency's ability to manage its human capital.

Verification and Validation:

The 2018 Federal Employee Viewpoint Survey indicated improvement in several key human capital management areas. Any shortfalls are being addressed with corrective actions.

Objective 3: Promote efficient and effective financial and logistics management.

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

A major focus for the entire agency is controlling costs and funds management. The agency is committed to achieving a "clean" audit opinion under the auspices of the Accountability of Tax Dollars Act of 2002.

FY 2018 Annual Performance Goal:

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:

Not applicable

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 Fiscal 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 will be continuously revised and improved in perpetuity. Previous updates include detailed process maps for key financial functions; and inclusion of desk procedures documenting roles and responsibilities, critical tasks of individual Financial Management staff members as well as audit requirements.

Verification and Validation:

The Fiscal Manual was updated and published on SSS's intranet during FY 2018 and will continue to be updated in perpetuity. For example, revisions could result from periodic reviews performed at least annually. In addition, future changes or adjustments will be incorporated as necessary.

Strategic Objective 2.3.2 – Align budgeted funds with performance expectations.

FY 2018 Annual Performance Goal:

Continue performance and budget integration.

Was the goal achieved? Yes

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

Discussion:
The agency's budget and strategic planning documents were aligned by organization codes and project codes in accordance with the Strategic Plan. The agency could properly display execution of resources for the budget submissions 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's goals and objectives.

Strategic Objective 2.3.3 – Fully implement the HSPD-12 program.

FY 2018 Annual Performance Goal:
Expand the use of HSPD-12 identification cards to include authentication security for all electronic activity and building access.

Was the goal achieved? The goal was mostly achieved.

Results:
SSS continued to successfully put in place the logistics infrastructure (including hardware and software for card credentialing, certification, and maintenance). However, some aspects of overall program administration are a work in progress. (See the "Discussion" section below for more information.)

Discussion:
Selective Service has a unique workforce structure that includes up to 150 authorized military reservists. These Reserve Force Officers (RFOs) are transient, sometimes serve for short periods of time, are spread around the globe, and use Department of Defense (DoD)-issued common access cards (CAC) instead of the Selective Service-issued personal identity verification (PIV) cards. The limited access to the DoD domain and reliance on individual RFOs to provide their CAC information to the agency's sole program manager create potential inefficiencies that can impede progress.

Impact:
The agency's ability to implement the HSPD-12 program was achieved. Since each field location is at a military facility, physical security is controlled at each location and there have been no security issues. The agency's Information Technology Directorate has provided close oversight of the information security aspects of HSPD-12 through-out the agency.

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.

Verification and Validation:
All full-time and contracted employees will use their issued HSPD-12 card for physical and information security access to SSS-controlled spaces during normal business hours.

Objective 4: Foster efficient and effective Information Technology management.

Fiscal Year 2018 was a year of reassessment, reorganization, and planning for Information Technology infrastructure modernization, while continuing to operate a data record system that incorporates hundreds of millions of individual registration records. These records are routinely and reliably referenced to confirm the eligibility of registrants for most federal and state employment and educational opportunities and benefits. This very large records system requires substantial and continuous diagnostic monitoring, cyber security, and network protection. The 2018 SSS systems capability self-assessment identified life cycle replacement costs necessary to be prepared for mobilization in the event of a national emergency.

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

For FY 2018, SSS set two performance goals for Strategic Objective 2.4.1.

- Continue the evolution of registration modernization efforts underway.
- Ensure compliance with FISMA requirements and reporting requirements while protecting personally identifiable information entrusted to SSS.

FY 2018 Annual Performance Goal #1:
Continue the evolution of registration modernization efforts.

Was the goal achieved? Yes

Results:
A major organizational restructuring was completed in FY 2018. Systems operations and maintenance functions were upgraded, evaluated, and exercised. And a new process for automated high school address updating was completed in coordination with the U.S. Department of Education.

Discussion:
The SSS needed to ensure the IT organizational structure, the Registration, Compliance and Verification (RCV) system, and the Integrated Mobilization Information System (IMIS) all remained capable of supporting registration management for the foreseeable future. This evolution ensures our people and systems will continue to meet the established strategic and performance goals, and comply with the requirements of the Military Selective Service Act.

Impact:
The SSS is confident that through a series of evaluations and exercises the organizational structure, the RCV, and IMIS systems are sustainable for the foreseeable future.

Planned Actions / Schedule:
The SSS achieved these goals by the end of FY 2018. In FY 2019, the Agency will continue work to comply with any new FISMA-related security requirements.

Verification and Validation:
SSS made initial investments in IT modernization in FY 2018. However, the agency expects this effort to begin in earnest in FY 2019 upon receipt of its full-year budget.

FY 2018 Annual Performance Goal #2:
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 2018 audit determined that SSS was in compliance with FISMA requirements and had zero material weaknesses. For the sixth consecutive year, SSS had a deficiency-free audit.

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

The agency also worked closely with the Department of Homeland Security (DHS) to implement continuous data monitoring (CDM). Improved CDM capabilities enhanced network security and helped ensure PII remained secure in transit and at rest.

Impact:

SSS maintains one of the largest federal databases containing personally identifiable information (PII) – the Agency takes data security seriously and will continue efforts to ensure the data it's entrusted to protect remains secure and viable. FISMA compliance validates the Agency is achieving this goal, and improved CDM capabilities help ensure PII data remains secure.

Planned Actions / Schedule:

Full CDM implementation efforts are currently underway and will continue with the DHS during FY 2018. The Agency will work closely with the DHS to ensure the program is successful.

Verification and Validation:

The FY 2018 FISMA validated security practices are compliant with current security requirements, and the FY 2019 audit will verify CDM was implemented successfully.

Objective 5: Promote efficient and effective 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 2018, the agency's Public and Intergovernmental Affairs (PIA) office proactively increased outreach activities through all media platforms and responded to a steady influx of inquiries, correspondence, and phone calls relating to questions, clarification, or assistance regarding registration requirements. Many inquiries were precipitated by increased awareness regarding the importance of registration as well as individuals seeking assistance to regain a benefit jeopardized by failing to register. Some of the assistance requests were driven by PIA's outreach activities offering assistance and efforts made by non-registrants to secure new employment or a general movement to retrain and retool one's skills. Additionally, news outlets both print and broadcast, contacted SSS for general interviews or specific information. PIA also processes all FOIA requests from various sources. They were all completed within the procedural timeframe and usually well before the allowed 20 business day window.

FY 2018 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 (DMC)

Registration Processing:
Target 18 days;
Actual: 5 days

Registrant Status Information Letters:
Target 10 days;
Actual: 5 days

Compliance Mailings:
Target 10 days;
Actual: 10 days

Other Center Mailings:
Target 10 days;
Actual: 4 days

Public & Intergovernmental Affairs (PIA) Directorate

Assorted Inquiries:
Target 10 days;
Actual: 3.5 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 Business 20 days;
Actual: 20 days or less

Discussion:

Remarkable turnaround times were maintained during FY 2018. DMC and PIA have in place internal controls to monitor turnaround times, in addition to customer feedback. Whenever a feasible programmatic fix is available, it is evaluated for adoption where economical and practical. Although the number of paper-based receipts and outbound letters increased moderately, improved processes actually decreased many of the actual times from FY 2017; the agency now meets or exceeds all targets.

Impact:

Well regarded customer service levels have again been achieved in responding to written inquiries. Overall, both the DMC and PIA are meeting or outperforming all of their response time goals. As positions are filled and personnel trained, additional improvements should be seen in customer service response times.

Planned Actions / Schedule:

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

Verification and Validation:

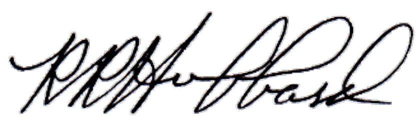
Statistical reports that measure processing timelines, program evaluations, and public feedback.

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 Reform Act, and the Federal Managers' Financial Integrity Act.

In FY 2018, 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. The audit resulted in an unmodified ("clean") opinion. Audit findings disclosed that SSS is not yet in full compliance with Office of Management and Budget Circular A-123, Management's Responsibility for Enterprise Risk Management, and identified weaknesses in internal control and processing. The Office of the Chief Financial Officer took no exception to the auditor's findings and has initiated a corrective action plan that will be fully executed in FY 2019.



Roderick R. Hubbard
December 20, 2018

Selective Service System

Audit of Financial Statements

As of and for the Years Ended September 30, 2018 and 2017

Draft Report

Submitted By

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

TABLE OF CONTENTS

LEON SNEAD
& COMPANY, P.C.

Certified Public Accountants
& Management Consultants

416 Hungerford Drive, Suite 400
Rockville, Maryland 20850
301-738-8190
Fax: 301-738-8210
leonsnead.companypc@erols.com

Independent Auditor's Report

DIRECTOR, SELECTIVE SERVICE SYSTEM

We have audited the accompanying financial statements of the Selective Service System (SSS), which comprise the balance sheet as of September 30, 2018 and 2017, and the related statements of net cost, changes in net position, and budgetary resources for the years then ended. The objective of our audit was to express an opinion on the fair presentation of those financial statements. In connection with our audit, we also considered the SSS's internal control over financial reporting and tested the SSS's compliance with certain provisions of applicable laws, regulations, and significant provisions of contracts.

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, 2018 and 2017, are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America.

Our consideration of internal control would not necessarily disclose all deficiencies in internal control over financial reporting that might be material weaknesses under standards issued by the American Institute of Certified Public Accountants. However, our report contains one finding that we consider a material weakness relating to internal controls over financial reporting, and a significant impediment to SSS's financial operations.

Our tests of compliance with certain provisions of laws, regulations, and significant provisions of contracts, disclosed one instance of noncompliance that is required to be reported under Government Auditing Standards and the Office of Management and Budget (OMB) audit bulletin.

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 the SSS, which comprise the balance sheets as of September 30, 2018 and 2017, and the related statements of net cost, statements of changes in net position, and statements of budgetary resources for the years then ended, and the related notes to the financial statements.

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 the financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; standards applicable to financial statement audits contained in *Government Auditing Standards (GAS)*, issued by the Comptroller General of the United States; and OMB Bulletin 19-01, *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 professional 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. 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 on Financial Statements

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SSS as of September 30, 2018 and 2017, 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 (MDA) 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) which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 purpose 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 the SSS, as of and for the years ended September 30, 2018 and 2017, 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. Therefore, material weaknesses or significant deficiencies may exist that were not identified.

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 significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider finding below to be a material weakness.

Findings and Recommendations

1. Staffing and Other Issues Significantly Impacted SSS Internal Control Processes

Staff shortages and other related issues significantly impacted the Office of the Chief Financial Officer's (OCFO) ability to timely and accurately process transactions, journal vouchers (JV), prepare financial statements and reports that reflected the SSS's financial position. The SSS's interim and its initial year-end financial statements provided for audit contained significant omissions and errors, and were not presented in accordance with OMB A-136 requirements and FASAB accounting standards. In addition, the SSS's required monthly reporting to the Government-wide Treasury Account Symbol (GTAS) was impacted because of these errors. As a result, the initial year-end financial statements were not auditable. We consider the issues reported in this finding to be a material weakness in internal control over financial reporting, a significant impact to SSS's overall financial management operations.

a. Material Errors Identified in Financial Statements[1]

The interim and initial year-end financial statements provided by SSS for audit had significant omissions, contained material errors and were not presented in accordance with FASAB and/or OMB presentation requirements. The issues noted during our tests of these financial statements are summarized below.

Interim Financial Statements

- There were no imputed costs calculated for the military service that provides RFO[2] services at no cost to the agency.
- Transactions were not processed to reflect the correct June 30 balances for unfunded leave and as a result, this account was misstated.

[1] SSS provided its year-end financial statements for audit at the end of October 2018; however, we determined that the financial statements were not auditable. SSS obtained OMB approval to delay its submission of the PAR (that includes the financial statements and related audit report) until mid-December. SSS provided revised FY 2018 year-end financial statements for audit in early December. For this report, we will differentiate between the statements and issues noted as initial year-end and final year-end statements.

[2] Reserved Field Officers – Military personnel used by SSS to assist in accomplishing portions of its mission.

- Transactions were not processed to reflect the correct June 30 balances for Federal Employees' Compensation Act (FECA) actuarial liability that changed by about $170,000.
- The agency's policy for accruing accounts payables from UDO listings was not consistently followed. The process followed by SSS to review and accrue for the value of goods and services provided by contractors is not effective, and we have reported similar issues in prior audit findings. Also, our review did not locate documentation where the SSS units were specifically asked to estimate the value of any services provided – as required by the accounting manual.

  In addition, for RFO undelivered orders and related accruals of accounts payables, we were not provided with sufficient and appropriate documentation to support either the amount of accruals made for June 30, or that the UDO balance appropriately represented the balance of services to be provided.

Initial Year-end Financial Statements Provided For Audit

The initial financial statements provided for audit were materially misstated. The primary cause for the misstatement was attributed to the many errors in the trial balance accounts use to compile the statements. Examples of problems noted are listed below:

- The balance sheet presented for audit did not balance. We identified differences between the relationship of assets to net position and liabilities of over $1.2 million, a material dollar amount.
- There were material errors in several balance sheet line items.
- The statement of net cost was materially misstated.
- The statements of changes in net position and budgetary resources did not follow the OMB Circular A-136 presentation formats, and there were errors in several line items of the statements.
- The financial statement footnotes frequently did not provide required comparative information, required footnotes were omitted, data compiled for prior year information was frequently incorrect, and the footnotes did not follow OMB Circular A-136 presentation requirements.
- The agency's quality control procedures did not detect the errors.

Final Year-end Financial Statements

Following our discussion with SSS officials about the errors in the financial statements the agency elected to withdraw them, correct the problems identified, and recompile a second set of statements for audit that adhered to the FASB and OMB requirements. Our audit of the re-submitted FY 2018 financial statements showed that SSS had addressed the issues found, and the statements were now free of material misstatements and comply with FASAB and OMB requirements. We were able to audit and opine on these statements.

b. GTAS Processing and Related Internal Controls Need Significant Improvement

SSS was unable to pass GTAS[3] validation edits[4] for several monthly reporting periods, starting about mid-year FY 2018, and posted JVs to "adjust" its general ledger balances to enable SSS to pass GTAS edits and report its financial data. The JVs processed to make these adjustments did not have documentation to support the need for the JV, the errors that caused the data to fail GTAS edits and what corrections were made to prevent similar errors. In effect, the agency was plugging its general ledger to pass edits of GTAS.

Our review of the SSS JV log, through August 2018, showed that 11 JVs were processed by SSS to "adjust" SSS general ledger account balances to pass GTAS validation errors. The JVs were reversed the next month and placed the general ledger accounts back to their original balances, but out-of-balance with the GTAS data. The following table lists several of the JVs processed by the agency.

<table>
<tr><th rowspan="2">Journal Voucher No.[5]</th><th rowspan="2">Reason for JV[6]</th><th colspan="2">Key GL Accounts and Amounts Posted</th><th rowspan="2">Auditor Comments</th></tr>
<tr><th>GL Account[7]</th><th>Amount</th></tr>
<tr><td>2018031</td><td>To fix GTAS cash edit error for May and will reverse in June</td><td>FBWT/6100</td><td>$61,924.22 (net)</td><td>This JV reduced the general ledger balance for FBWT and increased GL 6100 to agree with GTAS information. There were no additional documents or information attached to the JV to support the need for this adjustment.</td></tr>
<tr><td>201842</td><td>To fix GTAS cash edit error for May and will reverse in June</td><td>6100 /FBWT</td><td>$270,449.90</td><td rowspan="2">These two JVs processed non-USSGL compliant entries that credited FBWT and expenses. These two JVs resulted in the FBWT being decreased twice for about $540,000, and GL 6100 expenses netting to zero. There were no additional documents or information attached to the JV to support the need for this adjustment.</td></tr>
<tr><td>201843</td><td>To fix GTAS cash edit error for May and will reverse in June</td><td></td><td>$270,449.90</td></tr>
<tr><td>2018045</td><td>To correct GTAS edit check and will reverse in August.</td><td>6100/FBWT</td><td>$35,090.77</td><td>This JV debits FBWT and credits GL 6100. There were no additional documents or information attached to the JV to support the need for this adjustment.</td></tr>
<tr><td>2018050</td><td>To correct GTAS edit check and will reverse in September.</td><td>6100/FBWT</td><td>$309,783.30</td><td>This JV debits FBWT and credits GL 6100. There were no additional documents or information attached to the JV to support the need for this adjustment.</td></tr>
</table>

[3] Government Treasury Account Symbol Accounting System.

[4] Data validations verify the integrity of the data file and that all attributes are submitted according to the U.S. Standard General Ledger (USSGL) attributes and domain value rules and exceptions.

[5] If other JVs processed by SSS would have impacted these entries in the general ledger there were no such references on the JV document cited.

[6] The justification listed on the face of the journal voucher.

[7] These entries are only illustrations of the total entries, and the JV would contain other budgetary and proprietary entries. Entries in many cases were not in accord with USSGL posting requirements.

While we verified that these JVs were reversed, the reversals without an analysis of the cause of the GTAS validation edit errors merely placed the SSS general ledger data back into an out-of-balance condition with GTAS data.

SSS analyzed the JVs used to adjust the agency's general ledger and noted that these issues had been corrected, and SSS passed GTAS validation edits with no adjustment needed for the most recent GTAS report.

c. GTAS Trading Partner Report Shows Material Differences

SSS had not established a standard set of processes that support the recording, reporting, reconciliation, and measurement of intergovernmental activity, as required by the U.S. Treasury's Bureau of the Fiscal Service (BFS) guidance. As a result, while significant differences were identified in SSS's year-end reporting, we were unable to locate any documentation showing what actions were taken by SSS to research and correct, as appropriate, the transactions that caused these out-of-balance conditions.

We obtained the SSS's June and September 2018 GTAS Reports, entitled "Intragovernmental Differences by Trading Partner Report". The report lists 10 to 15 agencies[8] with differences between what each agency has reported for "buy and sell" transactions. The differences range from less than $500 to over $1 million. For example, the report for September 2018 shows the following information for several agencies:

Agency	Differences Reported by GTAS
Department of Labor	$303,718.08
United States Postal Service	$170,827.26
Office of Personnel Management	$ 35,813.93
General Services Administration	$598,750.89
Department of Homeland Security	$ 49,768.14

The BFS "Intragovernmental Transaction (IGT) Guide" has been incorporated into Appendix 10 of the Treasury Financial Manual (TFM), Chapter 4700. The manual provides that agencies "must follow a standard set of processes that support the recording, reporting, reconciliation, and measurement of intergovernmental activity. Agencies adherence to the processes provides (in this guide) the required controls for IGT activity and allows agencies…to perform their financial statement reporting in an efficient manner." The guide further provides that "Agencies must ensure they are able to identify and track IGTs…Agencies must maintain accurate, detailed information on transactions as part of the accounting records. This information assists agencies in identifying the correct postings to USSGL accounts and facilitates the reconciliation process…."

[8] One-line lists differences but does not include a named agency.

Without reviewing and determining the reasons for these trading partner differences, SSS's general ledger and related financial statements and reports could be incorrectly reporting costs (expenses) for these trading partners. SSS advised us that it was working to establish a process to address these reporting differences.

d. Preparation, Review and Approval of JVs Must be Strengthened

JVs processed contained significant errors through the date the initial financial statements were provided for audit, and general ledger postings that were not in accordance with USSGL posting models[9]. The JVs were reviewed and approved in accordance with the OCFO's accounting manual requirements; however, the errors were not detected. As a result, JV processing represents a material weakness to the agency's financial operations.

The following examples illustrate the problems we identified during our audit.

- For a JV made to accrue accounts payable, significant errors were made in posting the transactions. Instead of accruing accounts payable and posting entries to expenses (as outlined in the USSGL), the JV improperly posted an amount of $82,000 to FBWT; improperly credited expenses that reduced expenses rather than increase expenses by the same amount; and posted a budgetary entry incorrectly. SSS attempted to correct this error with another JV and again posted in error a debit entry to FBWT, now overstating the balance by approximately $165,000; errors in recording expenses resulted in this account being overstated by about $246,000. These JVs were subsequently reversed by SSS.
- As discussed in another section of this report, SSS processed two JVs that contained significant errors. These two JVs processed non-USSGL compliant general ledger entries that credited FBWT and expenses (among other budgetary and proprietary entries). As a result, material errors were made that resulted in FBWT being decreased twice for a total of about $540,000, and GL 6100 expenses were netted to zero. There were no additional documents or information attached to the JV to support the need for this adjustment. These JVs were subsequently reversed by SSS.
- Our testing of JVs processed during the period July through September 2018 continued to show that JVs were being posted that were not in compliance with required USSGL posting models and contained other errors.

Our testing of JVs processed after September 2018, and our discussions with OCFO officials on the problems noted, showed that some improvements had been made to address the serious issues noted during our earlier testing.

[9] OMB Circular No. A-123 requires that agencies record financial events throughout the financial management system using the USSGL at the transaction level. This is a legal requirement.

e. Controlling, Budgeting and Costing Internal Use Software in Development Continues to Impact SSS Operations

Despite this issue being reported in several prior audit reports and SSS officials issuing strengthened operating procedures to address the problems noted, the processes followed by SSS to control, budget and account for internal use software in development, in accordance with OMB and SSS requirements, are flawed. We have again identified breakdowns in SSS's internal controls that include both OCIO and OCFO operations. These internal controls should guide the agency in managing internal use software in development and related costs in accordance with federal requirements. Our audit found that SSS had misstated internal use software in development in both the agency's interim and initial year-end FY 2018 financial statements provided for audit. The value of internal use software in development is material to the agency's FY 2018 budget and financial reporting.

We determined that the primary cause of this problem that recurred during our FY 2018 audit was that the OCIO was not complying with established SSS policies concerning identifying which OCIO software projects would meet capitalization thresholds and providing timely information to the OCFO on the costs incurred in developing these applications. OMB has also issued guidance to agencies relating to budgeting and accounting for the costs of development of system software projects. Unless the OCIO adheres to both OMB and SSS guidance relating to software development life cycle requirements, including budgeting and accounting for these software development projects, this significant internal control weakness will continue within the agency.

Although we made repeated requests for documentation to support the value of internal use software in development, we were not provided with the requested information before SSS submitted initial year-end financial statements for audit. Subsequent to submission of the initial financial statements, SSS provided information that showed a significant portion of the GL account 1832 balance was incorrect. SSS also processed JVs to transfer about $300,000 of the amounts included in this general ledger account to expenses, and obtained updated information from OCIO officials that increased the value of internal use software in development by approximately $400,000.

f. Undelivered Orders

The process to validate undelivered orders (UDO), and to report on the validity of these obligations, as required by OMB and regulatory requirements, must be improved by the agency. We have reported issues with the process of validating UDO and related issues of supporting the accruals of accounts payables from open UDO in several prior audit reports, and we have again identified issues with this process during our current audit.

31 U.S. Code § 1501 provides that documentary evidence is required to support the value of undelivered orders for Government obligations. TFM 4225.60b - Undelivered Orders and Contracts, provides that "Unpaid obligations must represent valid obligations supported by documentary evidence to conform to Section 1311 of Public

Law 83-663 (68 Stat. 830). The amount of unpaid obligations represents the amount of orders for goods and services remaining unfilled at fiscal year-end for which the liability has not yet accrued." SSS certifies these amounts when it enters these values in GTAS and other federal reporting.

Our interim and initial year-end testing found that: (1) UDOs appeared to have been retained by the agency even though all goods and/or services had been provided by the contractor or agency, and (2) the process followed by the agency to accrue accounts payable for open UDOs was labor intensive and prone to errors.

Recommendations:

1. Address the staffing issues and the other significant problems that impacted the agency's financial operations discussed in this report, or move GTAS processing, financial statement compilation, preparation of journal vouchers, and other high- risk budget and financial operations to SSS's accounting service provider.
2. If GTAS processing, financial statement compilation, preparation of journal vouchers, and other high-risk budget and financial operations are not transferred to SSS's accounting service provider: (1) provide significant levels of additional training to all personnel involved in these activities; and (2) document in the fiscal manual additional detailed procedures, processes (templates) and controls to ensure that the significant problems identified in this year's audit do not recur.
3. Develop a comprehensive financial statement compilation checklist that will ensure financial statement preparation is completed in accordance with OMB and federal accounting standards and address the problems noted in this report.
4. Ensure that: (1) GTAS validation errors are researched and corrected timely, (2) documentation is maintained to support the analyses performed and the corrective actions taken, and (3) discontinue the practice of "adjusting" SSS's official accounting records simply to pass GTAS edits.
5. Issue operational policies that provide specific processes for reviewing, reconciling and correcting, as appropriate, the differences identified in the *Trading Partner Differences* GTAS report. Correct the differences identified in this report as part of the quarterly GTAS reporting process and maintain documentation that supports the actions taken to address the differences.
6. Perform a detailed assessment of the problems discussed in this report (including the posting of non-USSGL compliant transactions for financial statement, GTAS and budget purposes), and based upon this review, strengthen controls and provide additional detailed guidance in the fiscal manual.
7. Provide sufficient training to personnel to enable SSS, overall, to have sufficient skills to prepare JV using USSGL compliant posting models, and to identify errors in postings prior to approval by supervisory personnel.
8. Do not process or authorize the processing of any JV that does not comply with USSGL posting models, such as those identified during our financial statement and budget testing this fiscal year.

9. Establish a OCIO and OCFO working group, reporting to the Deputy Director, to analyze the recurring problems identified with internal use software development, and develop SSS-wide operating processes and controls to ensure that this recurring issue does not impact SSS future operations.
10. Include in key SSS officials' performance standards rating elements that require adherence to OMB and SSS requirements for budgeting, controlling and accounting for internal use software under development.
11. Discontinue the current process for estimating accruals of accounts payable, and establish an analytical process to estimate accounts payable accruals for quarterly financial statements.
12. Implement additional controls and processes to ensure that all UDOs at year-end reflect a realistic estimate of the value of goods and/or services yet to be provided, and that appropriate supporting documentation is maintained, or future errors could impact future financial statement audit opinions.

REPORT ON COMPLIANCE

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. 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, we noted one instance of noncompliance that is required to be reported according to *Government Auditing Standards* and the OMB audit bulletin guidelines. No other matters 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. 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.

Compliance with OMB Circular A-123

SSS had not yet fully implemented OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management (ERM) and Internal Control,* dated July 2016, a requirement to establish an enterprise risk management process to include the development of an agency risk profile. SSS has recently updated its initial approach to implementation of the ERM processes. We were provided a draft of the agency's directive on ERM dated September 2018. The initial draft was issued in October 2017.

Federal leaders and managers are responsible for establishing and achieving goals and objectives, seizing opportunities to improve effectiveness and efficiency of operations, providing reliable reporting, and maintaining compliance with relevant laws and regulations. They are also responsible for implementing management practices that effectively identify, assess, respond, and report on risks. OMB Circular A-123 required agencies to provide OMB with their initial risk profiles in coordination with the agency Strategic Reviews. The circular also required agencies to discuss those risks identified as part of the initial risk profile in FY 2017 in the Performance and Accountability Report. Further, the circular required agencies, by June 3, 2018 and each year thereafter, to prepare a complete risk profile and include risk components and elements required by the circular.

The following table lists the key tasks and required dates for implementing the requirements of the A-123 and SSS's current plan for implementing the OMB requirement:

Key OMB A-123 Requirements	Due Date in Circular	SSS Projected Completion Date	Auditor Comments
Establish Risk Management Council (RMC) to oversee the establishment of the Agency's risk profile, regular assessment of risk, and development of appropriate risk response.	Suggested for FY16; Required for FY17	February 2019	In discussions with SSS officials, we were advised that changes in agency governance and key management positions, as a result of changes in the administration, significantly impacted the agency's ability to accomplish the work required to properly meet the objectives of the circular.
Agencies must maintain a risk profile. The primary purpose of a risk profile is to provide a thoughtful analysis of the risks an Agency faces toward achieving its strategic objectives arising from its activities and operations, and to identify appropriate options for addressing significant risks.	June 2, 2017	April 2019	
Integration with Management Evaluation of Internal Control.	September 15, 2017	May 2019	
No less than annually, all agencies must prepare a complete risk profile and include required risk components and elements required by this guidance.	June 3, 2018 and annually thereafter	June 2019	

SSS officials advised us that changes in SSS governance, key management positions and changes in the approach to meeting the agency's mission requirements impacted the agency during the timeframe for implementation and compliance with the OMB Circular A-123.

Since SSS officials have taken actions to address these issues, we are not making any recommendations for this issue.

<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. 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.

AGENCY'S RESPONSE

AUDITOR COMMENTS

SSS provided a written response and advised that the agency has taken actions to report the material weaknesses identified in the audit in the agency's FMFIA report. In addition, the agency provided the action it plans to take to address the report's other recommendations.

The SSS's response to the audit report, which has been summarized in the body of this report, is included in its entirety as Attachment 2. The response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Leon Snead & Company, P.C.
Rockville, MD
December 20, 2018

Rec. No.	Status of Prior Years' Audit Recommendations	Status
1.	Develop detailed operating procedures to ensure that SSS meets accounting standards relating to internal use software. Ensure that these procedures are applied to new system development and "enhancement" projects, as discussed in SFFAS No. 10.	Open
2.	Provide training to appropriate SSS personnel on the procedures and applicable accounting standards that must be followed relating to internal use software.	Open
3.	Develop methods to capture and calculate overhead rates for the agency that need to be applied to personnel costs associated with internal use software. Update these rates periodically.	Closed
4.	Develop a system for capturing personnel costs associated with projects or "enhancements" that meet the SFFAS No. 10 standards, and agency capitalization thresholds.	Open
5.	Ensure that OMB Circular A-123 monitoring processes include assurance that the agency is adhering to SFFAS No. 10 standards, and agency requirements relating to accounting and reporting on internal use software.	Open
6.	Develop, as part of the OCFO accounting manual, for key financial transactions a processing checklist that would detail the steps and processes that need to be followed to process these financial transactions. Provide sufficient analytical detail to ensure that the transaction processed is supported by the source documentation.	Open
7.	Perform additional reviews to attempt to identify the reason(s) prior year appropriations were incorrectly used to fund current year activity and implement additional control processes based upon this review.	Closed
8.	Request the accounting service provider to establish controls that would prohibit processing of any transaction, (obligation, payment of an invoice) without the specific prior authorization of the CFO above a certain dollar threshold.	Closed
9.	Provide training to OCFO personnel on processing upward adjustments, and other key accounting transactions.	Closed

SELECTIVE SERVICE SYSTEM

National Headquarters/ Arlington, Virginia 22209-2425

December 20, 2018

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

Dear Mr. Snead,

I have reviewed the report on the audit of Selective Service System's financial statements for the years ended September 30, 2018 and 2017. I take no exception to the opinion rendered or the findings cited.

As Chief Financial Officer, I will develop and present to the Director of Selective Service a comprehensive corrective action plan to address the report's findings. The plan will incorporate your recommendations to the greatest extent possible where it is practical and cost effective to do so.

I appreciate the thorough review and detailed report that you provided. Should you have any questions or need additional information, please contact me. I can be reached by phone at (703) 605-4022 or via email at rhubbard@sss.gov.

Roderick R. Hubbard
Chief Financial Officer

OVERVIEW OF FINANCIAL STATEMENTS

Purpose of the financial statements is to present the following information:

- The *Balance Sheet* presents the combined amounts available for use (assets) versus the amounts owed (liabilities) and the residual amounts after liabilities were subtracted from assets (net position).

- The *Statement of Net Cost* presents the annual cost of operations and determined by the agency's gross costs less any earned revenue.

- The *Statement of Changes in Net Position* presents accounting items causing the net position section of the balance sheet to change from the beginning to the end of the fiscal year.

- The *Statement of Budgetary Resources* presents how budgetary resources were made available for use during the fiscal year and the status of those resources at the end of the fiscal year.

Selective Service System
BALANCE SHEET
As of September 30, 2018 and 2017
(In dollars)

	FY 2018	FY 2017
Assets		
Intragovernmental:	**FY 2018**	**FY 2017**
Fund Balance with Treasury (Note 2)	$6,623,828	$5,089,737
Total Intragovernmental	$6,623,828	$5,089,737
Accounts receivable, net (Note 3)	$5,649	$164
General property, plant and equipment, net (Note 4)	$2,541,545	$4,270,338
Total assets	**$9,171,022**	**$9,360,239**
Liabilities (Note 13):		
Intragovernmental:		
Accounts Payable	$264,792	$241,953
Employer Contribution and payroll taxes	$96,885	$100,003
Unfunded FECA Liability (Note 5 & 6)	$417,977	$324,261
Other unfunded employment related liability	$7,607	-
Total intragovernmental	$787,260	$666,217
Non-Federal:		
Accounts Payable	$568,205	$313,347
Federal employee and veteran benefits (Note 5 & 6)	$1,615,777	$1,810,308
Accrued Funded Payroll & Leave	$355,135	$434,347
Employer Contribution and payroll taxes	$14,275	$14,698
Unfunded Leave (Note 5)	$783,561	$815,944
Total Non-Federal	$3,336,954	-
Total Liabilities	**$4,124,214**	**$4,054,861**
Net Position:		
Unexpended Appropriations	$4,954,537	$3,985,388
Cumulative Result of Operations	$92,271	$1,319,990
Total Net Position	$5,046,808	$5,305,378
Total Liabilities and net position	**$9,171,022**	**$9,360,239**

The accompanying notes are an integral part of these statements

Selective Service System

STATEMENT OF NET COST

For period ending September 30, 2018

(in dollars)

	2018	2017
Program costs:		
Program A:		
Gross costs (Note 8)	$ 25,164,105	$ 25,122,015
Less: earned buy/sell revenue (Note 9	(370,000)	$ (370,000)
Net program costs	24,794,105	$ 24,752,015
Net cost of operations	$ 24,794,105	$ 24,752,015

The accompanying notes are an integral part of these statements.

Selective Service System

Statement of Changes in Net Postion

As of September 30, 2018

(In dollars)

	FY 2018	FY 2017
Unexpended Appropriations:		
Beginning Balance	$3,985,388	$3,902,500
Beginning Balance, as adjusted	$3,985,388	$3,902,500
Appropriations received	$22,900,000	$22,900,000
Other Adjustments	($662,640)	($517,939)
Appropriations used	($21,268,211)	($22,299,173)
Total Budgetary Financing Sources	$969,149	$82,888
Total Unexpended Appropriations	$4,954,537	$3,985,388
Cumulative Results from Operations:		
Beginning Balance	$1,319,990	$1,738,057
Beginning Balances, as adjusted	$1,319,990	$1,738,057
Appropriations used	$21,268,211	$22,299,173
Other Financing Sources:		
Imputed financing	$2,298,175	$2,034,775
Total Financing Sources	$23,566,386	$24,333,948
Net Cost of Operations	$24,794,105	$24,752,015
Net Change	($1,227,719)	$418,067
Cumulative Results of Operations	$92,271	$1,319,990
Net Position	**$5,046,808**	**$5,305,378**

Selective Service System

SF 133 STATEMENT OF BUDGETARY RESOURCES

For the Years Ended September 30, 2018 and 2017

(in dollars)

Budgetary Resources	**FY 2018**	**FY 2017**
Unobligated balance from prior year budget authority	**$1,762,082**	**$2,129,692**
Appropriations	$22,900,000	$22,900,000
Spending Authority from offsetting collections	$370,000	$370,000
Total budgetary resources	**$25,032,082**	**$25,163,947**
Status of Budgetary Resources		
New obligations and upward adjustments (total)	$23,172,853	$23,263,159
Unobligated Balance, end of year:		
Apportioned, unexpired accounts	$155,445	$138,271
Unexpired unobligated balance, end of year	$155,445	$138,271
Expired unobligated balance, end of year	$1,703,783	$1,762,517
Unobligated balance, end of year (total)	$1,859,229	$1,900,789
Total budgetary resources	**$25,032,082**	**$25,163,947**
Budget Authority and Outlays, net		
Outlays, net	$20,703,270	$22,559,533
Outlays, net (total) (discretionary and mandatory)	**$20,703,270**	**$22,559,533**

The accompanying notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

As of and for the periods ended September 30, 2018 and 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AS OF SEPTEMBER 30, 2018

(a) Reporting Entity Including Changes Related to SSS

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

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

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

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

- The Balance sheet presenting the agency's financial position.
- The Statement of Net Cost with the agency's operating results.
- The Statement of Changes in Net Position with the changes in the agency's equity accounts.
- The Statement of Budgetary Resources with the sources, status and uses of budgetary resources.

(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 June 2018).

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

(c) Budget Authority

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

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

(d) Fund Balance with Treasury

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

(f) Property, Plant, and Equipment

The basis for recording purchased general Property, Plant, and Equipment (PPE) is full costs, including all costs incurred to bring the PP&E to and from a location suitable for its intended use. The SSS PP&E consists of equipment, software, and internal use software in development. SSS' policy is to capitalize individual purchases of property and equipment with a cost of $50,000 or more and a useful life of at least three years. The dollar threshold for capitalization of bulk purchases is $100,000. Assets are depreciated using straight- line method of depreciation with useful lives ranging from three to seven years. See footnote 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 footnote for information on "Liabilities Not Covered by Budgetary Resources" for information on Accounts Payable.

(h) Accrued Workers Compensation and Other Actuarial Liabilities

Federal Employees' Compensation Act (FECA) provides income and medical cost protection to cover federal civilian employees injured on the job, employees who have incurred a work-related injury or occupational disease, and to pay beneficiaries of employees whose deaths are attributable to job-related injuries or occupational disease. The FECA program is administered by the United States Department of Labor (DOL), which pays valid claims and subsequently seeks reimbursement from the Selective Service System for these paid claims. See footnote "Liabilities Not Covered by Budgetary Resources" for additional information.

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

SSS employees participate in the Civil Service Retirement System (CSRS), the Federal Employees Retirement System (FERS), the Federal Employees Retirement System-Revised Annuity Employees (FERS-RAE) or the Federal Employees Retirement System-Further Revised Annuity Employees (FERS-FRAE).

(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 and 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 2018 and 2017 to the extent directed by the OMB, such as: employees' pension, post-retirement health and life insurance benefits; other post- employment benefits for retired, terminated, and inactive employees, which include unemployment and workers compensation under the Federal Employees' Compensation Act (FECA) and losses in litigation proceedings. In addition, SSS recognized imputed cost for services received from other federal agencies without reimbursement; these services included office space for DMC and Region I (Illinois), Region II (Georgia), Region III (Colorado) and Reserve Force Officer (RFO) services from the U.S. Army Reserves, the U.S. Marine Corps Reserves, and the Army National Guard.

(l) Revenues and Other Financing Sources

SSS' activities are financed either through exchange revenue it derives from other federal government entities or through appropriations. A reimbursable agreement with the Department of Defense provides 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.

(m) Use of Estimates

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

(n) Expired Accounts and Canceled Authority

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

(o) Contingent Liabilities

Contingencies 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. SFFAS No. 5, as amended by SFFAS No.12, contains the criteria for recognition and disclosure of contingent liabilities. In addition to the contingent liabilities required by SFFAS No. 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 was no circumstance involving any uncertainty as to possible loss.

Note 2 – Fund Balance with Treasury

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

Fund Balance	2018	2017
Appropriated Funds (general)	$6,623,828	$5,089,737
Total Fund Balance with Treasury	$6,623,828	$5,089,737
Status of Fund Balance with Treasury		
Unobligated Balance:		
Available:	$155,445	$138,271
Unavailable:	$1,703,783	$1,762,517
Obligated Balance Not Yet Disbursed	$4,764,599	$3,188,949
Total Status of Fund Balance with Treasury	**$6,623,828**	**$5,089,737**

NOTE 3 – ACCOUNTS RECEIVABLE NET

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

Note 3: Accounts Receivable, Net
As of September 30, 2018
(in dollars)

	2018	2017
Intragovernmental Accounts Receivable:		
Gross Accounts Receivable:	$0	$0
Public: Accounts Receivable		
Accounts Receivable, Gross:	$5,648	$164
Accounts Receivable, Net:	**$5,648**	**$164**

NOTE 4 – GENERAL SSS PROPERTY, PLANT AND EQUIPMENT

SSS policy is to capitalize individual purchases of property and equipment with a cost of $50,000 or more and a useful life of at least three years. The dollar threshold for capitalization of bulk purchases is $100,000. Assets are depreciated using straight-line method of depreciation with useful lives ranging from three to seven years. Additionally, internal use software development and acquisition costs of $50,000 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, 2018:

Note 4: General SSS Property, Plant and Equipment
As of September 30, 2018
(in dollars)

	Service Life	Acquisition Value	Accumulated Depreciation	2018 Net Book Value	2017 Net Book Value
Equipment	3-7 year	$2,050,820	($1,625,681)	$425,139	$547,776
Information Technology Softwa	3- year	$564,914	($564,914)	$0	-
Information Technology Softwa	5-year	$1,465,058	($478,128)	$986,930	$1,153,809
Information Technology Softwa	7- year	$11,142,005	($10,847,025)	$294,980	$1,778,712
Information Technology Softwa	10-year	$538,091	($211,372)	$326,719	$316,189
Internal Use Software	5- year	$507,776	$0	$507,776	$473,852
Total		**$16,268,664**	**($13,727,120)**	**$2,541,545**	**$4,270,338**

NOTE 5 – LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

The liabilities on Selective Service System's Balance Sheet as of September 30, 2018, 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, 2018 and 2017 is as follows:

Note 5: Liabilities Not Covered by Budgetary Resources
As of September 30, 2018
(in dollars)

	2018	2017
Intragovernmental Liabilities		
Unfunded FECA Liabilities	$417,977	$324,261
Other-Unfunded Liabilities	$7,607	$0
Total Intragovernmental	**$425,584**	**$324,261**
Non-Federal Liabilites		
Federal employee & Veteran Benefits-FECA Actuarial Liability	$1,615,777	$1,810,308
Unfunded Annual Leave	$783,561	$815,944
Total Non-Federal	**$2,399,338**	**$2,626,252**
Total liabilities not covered by budgetary resources	$2,824,922	$2,950,513
Total liabilities covered by budgetary resources	**$1,299,291**	**$1,104,350**
Total liabilities	**$4,124,214**	**$4,054,862**

NOTE 6 – FEDERAL EMPLOYEECOMPENSATION ACT
As of September 30, 2018 and 2017
(in dollars)

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to covered federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. Claims incurred for benefits for SSS employees under FECA are administered by the Department of Labor (DOL) and are paid, ultimately, by SSS. For 2017, and again in 2018, SSS used estimates provided by DOL to report the FECA liability. This practice is consistent with the practices of other federal agencies. SSS recorded an estimated actuarial liability for future costs that represent the expected liability for approved compensation cases beyond the current fiscal year. This estimated actuarial liability of $1,615,777 and $1,810,308 as of September 30, 2018 and 2017, respectively, is reported on SSS' Balance Sheet. SSS also recorded amounts paid to claimants by DOL as of September 30, 2018 and 2017, of $417,977 and $324,261 respectively, but not yet reimbursed to DOL by SSS.

NOTE 7 – LEASES

The Selective Service System leases office and storage space from commercial vendors and the General Service Administration (GSA). In addition, SSS rents copiers and other office equipment from commercial vendors and vehicles from GSA and commercial vendors. SSS has executed one long-term lease for office space for the National Headquarters in Arlington, Virginia. Office space for National Headquarters is obtained via cancellable lease from General Services Administration (GSA) via a new Occupancy Agreement (OA) which became effective on October 28, 2018 to October 27, 2022. The cost for FY 2018 is $ 659,925. Historically, base rent has escalated from 1% to 2% each year and is adjusted annually for operating cost (3%) and real estate taxes. Because Monday Properties had not increased the Headquarters' OA cost for several years, the most recent adjustment increased OA costs by 51 percent. The future year payments remaining under the new OA are as follows:

Note 7: Leases
As of September 30, 2018
(in dollars)

Entity as Lessee:

Operating Lease

Future Payments Due for Cancellable Operating Leases

	National HQ	DMC	Region 1	Region 2	Region 3	Totals
Fiscal Year						
FY 2018	$ 659,925	$ -	$ -	$ -	$ -	$ 659,925
FY 2019	$ 996,480	$ -	$ -	$ -	$ -	$ 996,480
FY 2020	$ 1,005,623	$ -	$ -	$ -	$ -	$ 1,005,623
FY 2021	$ 1,015,040	$ -	$ -	$ -	$ -	$ 1,015,040
FY 2022	$ 1,024,740	$ -	$ -	$ -	$ -	$ 1,024,740
After 5 Years:	$ 96,821	$ -	$ -	$ -	$ -	$ 96,821
Total Future Lease Pay	**$ 4,798,630**	$ -	$ -	$ -	$ -	**$ 4,798,630**

NOTE 8 – INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUES

Intragovernmental costs are those expenses paid by SSS to other federal government entities. They include, but are not limited to, the U.S. Postal Service, the Office of Personnel Management, the U. S. Navy, the Department of Defense, the Department of the Interior, General Services Administration, Government Printing Office, and Great Lakes Naval Station Public Works. Public costs are expenses paid to all other entities, to include state and local governments and the general public. All earned revenue was with other federal government agencies. Exchange revenues are those that derive from transactions in which SSS is reimbursed for services performed for other federal agencies. 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 2018 and 2017, SSS earned $370,000 under an agreement with the U.S. Department of Defense. The DoD reimbursed SSS for the indirect labor costs SSS incurred in mailing DoD materials as inserts along with SSS acknowledgment letters and in managing and reporting on this annual reimbursable agreement:

Note 8: Intragovernmental Costs and Exchange Revenues
As of September 30, 2018
(in dollars)

	2018	2017
Intragovernmental Costs	$9,572,946	$9,809,057
Public Costs	$15,591,159	$15,312,958
Total Program Cost	**$24,164,105**	**$25,122,015**
Intragovernmental Earned Revenues	$370,000	$370,000
Total Program Earned Revenue	**$370,000**	**$370,000**

NOTE 9 – EXCHANGE REVENUE

Exchange revenue is earned revenue for services provided to other government agencies through reimbursable inter-agency agreements. SSS recovers full cost of services and amounts are earned at the time the expenditures are incurred against the reimbursable order. During FY 2018 and 2017, SSS earned $370,000 and $370,000 under agreement with the U.S. Department of Defense. The DoD reimbursed SSS for the indirect labor costs that SSS incurred mailing DOD materials as inserts along with SSS Acknowledgments and managing and reporting on this annual reimbursable agreement:

Note 9: Exchange Revenue
As of September 30, 2018
(in dollars)

Intragovernmental Earned Revenues	$370,000.00	$370,000.00
Total Program Earned Revenue	**$370,000.00**	**$370,000.00**

NOTE 10: APPORTIONMENT CATEGORIES OF NEW OBLIGATIONS AND UPWARD ADJUSTMENTS: DIRECT VS. REIMBURSABLE OBLIGATIONS

Obligations incurred reported on the Statement of Budgetary Resources in FY 2018 and FY 2017 consisted of the following:

Note 10: Apportionment Categories of New Obligations and Upward Adjustments: Direct vs. Reimbursable Obligatations
As of September 30, 2018
(in dollars)

	Apportionment Category	2018	2017
Obligations incurred:			
Direct Obligations	A	$22,802,853	$22,893,159
Reimbursable Obligations	B	$370,000	$370,000
Total Obligations incurred		**$23,172,853**	**$23,263,159**

NOTE 11 – UNDELIVERED ORDERS AT THE END OF THE PERIOD

Undelivered orders are purchase orders issued by SSS during FY 2018 or FY 2017 which have not had delivery of the required product or service as of September 30, 2018 or 2017, respectively. It is anticipated that these undelivered items will be provided in future periods and will require resources obligated during FY 2018 or FY 2017.

Note 11: Undelivered Orders
As of September 30, 2018
(in dollars)

	2018	2017
Intragovernmental Undelivered Orders, Unpaid:	$2,007,293	-
Public Undelivered Orders, Unpaid:	$1,458,015	-
Total Undelivered Orders	**$3,465,308**	**$2,084,599**

NOTE 12 – EXPLANATION OF DIFFERENCES BETWEEN THE SBR AND U.S. BUDGET

SFFAS No. 7 calls for explanation of material differences between amounts reported in the Statement of Budgetary Resources (SBR) and the actual balances published in the Budget of the United States Government (President's Budget). The President's Budget, with the actual FY 2017 amounts, was released in February 2018. The President's Budget, with the actual FY 2018 amounts, is estimated to be released in February 2019. Both can be found at the OMB website (http://www.whitehouse.gov/omb). As such, the actual amounts for FY 2018 in the President's Budget have not been published at the time these financial statements were prepared. A comparison of FY 2017 Statement of Budgetary Resources to the President's Budget is shown in the following table:

Note 12: Explaination of Differences between SBR and U.S. Budget
As of September 30, 2018

		Budgetary Resource	Obligation Incurred	Net Outlay
Combined Statement of Budgetary Resources	$	25	23	23
Unobligated Balance not Available		(2)	-	-
Total Adjusted Balance	$	23	23	23
Budget of the US Government	$	23	23	23
Difference	$	-	-	-

NOTE 13 – RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

Details of the relationship between budgetary resources obligated and the net costs of operations for the agency budget are as follows:

Note 13: Reconcilliation of Net Cost of Operations to Budget
As of September 30, 2018
(in dollars)

Resources Userd to Finance Activities	**2018**	**2017**
Obligations Incurred	$23,172,853	$23,263,159
Less: Spending Authority from Offsetting Collections & Recoveries	($892,820)	($282,195)
Obligations net of offsetting collections and recoveries	$22,280,033	$22,980,964
Net Obligations	$22,280,033	$22,610,964
Imputed financing from costs absorbed by others	$2,298,175	$2,034,775
Net other resources used to finance activities	$2,298,175	$2,034,775
Total resources used to finance activities	$24,578,208	$24,645,739
Resources User to Finance Items not part of the Net Cost of Operations		
Change in budgetary resources obligated for goods, services and benefits ordered but ı	$1,380,709	$311,791
Resources that Fund Expenses Recognized in Prior Periods	$226,913	($100,654)
Resources that Finance the Acquisition of Assets or Liquidation of Liabilities	$191,537	$1,494,213
Total Resources Used to Finance Items Not Part of Net Cost of Operations	$1,416,085	$1,705,349
Total Resources Used to Finance the Net Cost of Operations	$23,162,123	$22,940,389
Components Not Requiring or Generating Resources in the Current Period		
Depreciation & Amortization	$1,934,639	$1,831,447
Revaluation of Assets or Liabilities	$397,382	($5,313)
Bad Debt	$5,485	($445)
Components Requiring or Generating Resources in the Current Period		
Increase/Decrease in Annual Leave Liability	($32,383)	($14,398)
Total Costs that will Require or Generate Resources in Future Periods	$101,322	$14,063
Total Componets of Net Cost that will not Require or Generate Resources	$1,531,772	$1,825,689
Total Components of Net Cost not Requiring or Generating Resources in the Current Pe	$1,633,094	$1,811,626
Net Cost of Operations	$24,794,105	$24,752,015

Details of the relationship between budgetary resources obligated and the net costs of operations for the period ended Spetember 30, 2018 and 2017

PERFORMANCE DETAILS

IMPROPER PAYMENTS

The Improper Payments and Information Act of 2002 (IPIA) requires federal agencies to provide for estimates and reports of improper payments. Congress amended IPIA in 2010 with the Improper Payments Elimination and Recovery Act (IPERA) and the Improper Payments Elimination and Recovery Improvement Act (IPERIA) in 2013. IPIA, as amended, requires the head of each agency to periodically review, identify, estimate and report on all programs and activities that may be susceptible to significant improper payments.

This legislation lists specific requirements for agencies to comply with this legislation: publishing the annual financial statements for the most recent fiscal year; conducting a program specific risk assessment; publishing improper payments estimates for programs and activities identified as susceptible to significant improper payments; publishing programmatic corrective action plans; publishing reduction targets for programs assessed to be at risk; and a report on an improper payment rate of less than 10 percent for each program and activity for which an estimate was published under IPIA. SSS's risk assessment concluded its programs were at low risk for improper payments during FY 2018 and any recapture efforts are not cost effective.

APPENDIX

FY 2018 PERFORMANCE CHART

Agency-wide Annual Performance Results and Targets

		Actual	Actual	Actual	Actual	Actual	Actual
Performance Goals	**Objective**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
Achieve and maintain registration rate of at least 91 percent or above for eligible males 18-25.	1.1.1	100%	100%	100%	100%	100%	100%
Increase the percentage of electronic registrations.	1.1.2	100%	100%	100%	100%	100%	100%
Be prepared to deliver personnel when needed.	1.2.1	100%	100%	100%	100%	100%	100%
Be prepared to ensure timely and consistent handling of claims	1.2.2	100%	100%	100%	100%	100%	100%
Plan for the timely job placements of Alternative Service Workers (ASWs) in a mobilization when needed.	1.3.1	NA	NA	NA	NA	NA	NA
Improve efficient and effective human capital management.	2.2.1	25%	25%	100%	100%	100%	100%
Improve the efficiency and effectiveness of financial and logistics management activities.	2.3.1	100%	100%	100%	100%	100%	100%
Align budgeted funds with performance expectations.	2.3.2	100%	100%	100%	100%	100%	100%
Fully implement the HSPD-12 program.	2.3.3	80%	80%	90%	90%	90%	90%
Improve the efficiency and effectiveness of technical operations.	2.4.1	100%	100%	100%	100%	100%	100%
Provide accurate communications with diverse customers in a timely manner	2.5.1	100%	100%	100%	100%	100%	100%

FY 2018 PERFORMANCE CHART

AGENCY-WIDE ANNUAL PERFORMANCE RESULTS AND TARGETS

Performance Goals	Objective	Actual 2014	Actual 2015	Actual 2016	Actual 2017	Actual 2018
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 days	2 days	10 days	10 days	6 days
PIA:	2.5.1					
Congressional, media, registrants, the general public:		2 days	2 days	2.2 days	2.2 days	3.5 days
Freedom of Information Act and Privacy Act customers:		≤ 12 days	≤ 18 days	≤ 13 days	≤ 17 days	≤ 20 days

GLOSSARY

ABBREVIATIONS AND ACRONYMS

Air Reserve Base	ARB
Alternative Service Employer Network	ASEN
Alternative Service Worker	ASW
Calendar Year	CY
Chief Information Officer	CIO
Civil Service Retirement System	CSRS
Conscientious Objector	CO
Continuity of Operations Plan	COOP
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 Emergency Management Agency	FEMA
Federal Employees' Compensation Act	FECA
Federal Employees Retirement System	FERS
Federal Information Security Management Act	FISMA
Federal Managers' Financial Integrity Act	FMFIA
Fiscal Year	FY
Full-Time Equivalent	FTE
Generally Accepted Accounting Principles	GAAP
Government Accountability Office	GAO
General Services Administration	GSA
Human Capital Assessment & Accountability Framework	HCAAF
Human Capital Management Plan	HCMP
Human Resources	HR
Information Technology	IT
Military Entrance Processing Station	MEPS
Military Selective Service Act	MSSA
Office of Management and Budget	OMB
Office of Personnel Management	OPM
Oracle Federal Financials	OFF
Performance and Accountability Report	PAR
Property, Plant, & Equipment	PP&E
Public and Intergovernmental Affairs	PIA
Registration Compliance Statistical Information	RCSI
Registration, Compliance, and Verification	RCV
Reserve Force Officer	RFO
Selective Service System	SSS
Statement of Budgetary Resources	SBR
Statement of Federal Financial Accounting Standards	SFFAS
Year of Birth	YOB

Selective Service System
National Headquarters
Arlington, VA 22209