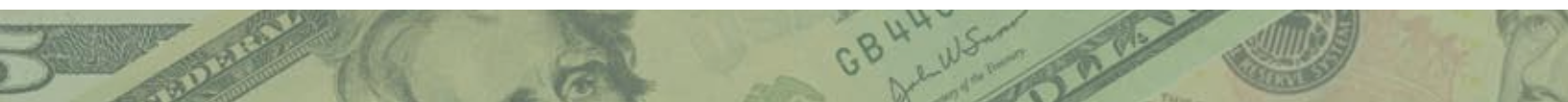


SELECTIVE SERVICE SYSTEM
PERFORMANCE AND
ACCOUNTABILITY
REPORT

07



FISCAL YEAR 2007





FISCAL YEAR 2007
PERFORMANCE AND
ACCOUNTABILITY REPORT



SELECTIVE SERVICE SYSTEM – DECEMBER 2007





Selective Service System

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December 2007

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MESSAGE FROM THE DIRECTOR

The Selective Service System (SSS) recognizes the importance of public disclosure and accountability; thus, the publication of this Agency's Performance and Accountability Report (PAR) for FY 2007.

SSS seeks to document its objective of staff responsibility and accountability through implementation of its family of plans: the FY 2007 Performance Budget, the FY 2006-2011 Strategic Plan, and this PAR. We intend to review systematically and assess dispassionately program performance, together with financial management systems, to guarantee that our organizational stewardship is in accordance with the Government Performance and Accountability Act, the Government Management and Reform Act, and the Federal Managers' Financial Integrity Act.

For some of these programs and activities, I am disappointed to report a qualified audit assurance. The independent audit disclosed several issues with the new accounting and property systems that have a direct impact on the overall financial management operations of the Agency. Issues involved general ledger system posting models, together with accounting system's controls that were insufficient to prevent out-of-balance conditions between control accounts and supporting subsidiary records. The Agency has not been able to employ its new property system to control its property inventory, capital assets, or calculate depreciation on capital assets. In addition, the Agency is addressing several control weaknesses that were identified in the Federal Information Security Management Act (FISMA) audit of 2007.

SSS acknowledges the validity of the independent auditors' findings and concurs with their recommendations. The recommendations offered by the audits are being implemented by realigning workload to allow staff to work these priorities, relying more on support offered by our financial service provider, and increasing staff training. Corrective actions are underway to ensure accountability and correction.



William A. Chatfield

William A. Chatfield
Director



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HOW TO USE THIS REPORT

This PAR contains the SSS' performance goals, measures, results, and accounting activities for FY 2007. The SSS' assessment of performance is a comparison of actual performance to the annual goals contained in the Agency's FY 2007 Performance Budget.

The report has four parts:

- Management's Discussion and Analysis

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

- Performance Details

This section contains detailed performance information for FY 2007. It contains our annual performance goal, actual performance, discussion, impacts, planned action/schedule, and verifications and validations.

- Financial Details

This section contains details about our financial performance for FY 2007. It includes our audited financial statements, notes, and reports from the independent auditing firm of Leon Snead & Company, P. C.

- Appendix

This section contains a chart presenting five years of Agency performance results data for FY 2003 through FY 2007 and the Performance Targets for FY 2008.



Performance and Accountability Report

Management's Discussion and Analysis

Agency at a Glance

Mission

The SSS' missions are to remain prepared to provide trained and untrained personnel to the Department of Defense (DoD) in the event of a national emergency, and to provide an Alternative Service Program for those from the manpower pool who seek and are granted conscientious objector status.

Although only the registration function is publicly visible in peacetime, components of our mission greatly increase timeliness, fairness, and equity in the event of an actual mobilization. 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, 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 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, Internet and telephone) reduces the cost per registration and advances the efficiency of the overall registration process. Although no requirement currently exists to register anyone other than 18- through 25-year-old men, our systems are designed to accommodate potential future registration requirements.

The other aspect of the SSS' mission is to mobilize, if ordered to do so by the President and Congress. In the event of a mobilization, SSS will hold a national draft lottery, contact those registrants selected via the lottery, and arrange for their transportation to a Military Entrance Processing Station (MEPS). This procedure would be followed for a mobilization of trained or untrained personnel.

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

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



History

For more than 60 years, the 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.

President Franklin Roosevelt signed into law the Selective Training and Service Act of 1940 that created the country's first peacetime draft and formally established the SSS as an independent Federal agency. From 1948 until 1973, during both peacetime and periods of conflict, men were drafted to fill vacancies in the Armed Forces that could not be filled through voluntary means.

In 1973, the draft ended and the U.S. converted to an all-volunteer military. The registration requirement was suspended in April 1975; then resumed in 1980, by President Carter in response to both the Soviet Union's invasion of Afghanistan and the results of various DoD readiness exercises. The exercises indicated that, without a peacetime registration program, it would take too long to provide personnel for an expanded military. Registration has continued uninterrupted since that time.

Our Nation's all-volunteer military forces have worldwide commitments. Maintaining the SSS and draft registration provides a hedge against unforeseen threats and a relatively low-cost "insurance policy" against underestimating the maximum level of threat we expect the U.S. Armed Forces to face. As fewer and fewer members of society have direct military experience, it is increasingly important to maintain the link between the All-Volunteer Force and our society-at-large. The Armed Forces also must know that the general population stands behind them, committed to serve, should the preservation of our national security so require.

The SSS of today faces the same challenge confronting numerous defense and quasi-defense agencies – that of striking a balance between current budgetary constraints and being adequately prepared for future contingencies. To accommodate the uncertainty of the future, we must build flexibility into our programs, systems, and mobilization scenarios. To satisfy budgetary constraints, the Agency has utilized its resources as efficiently and effectively as possible.

Organization

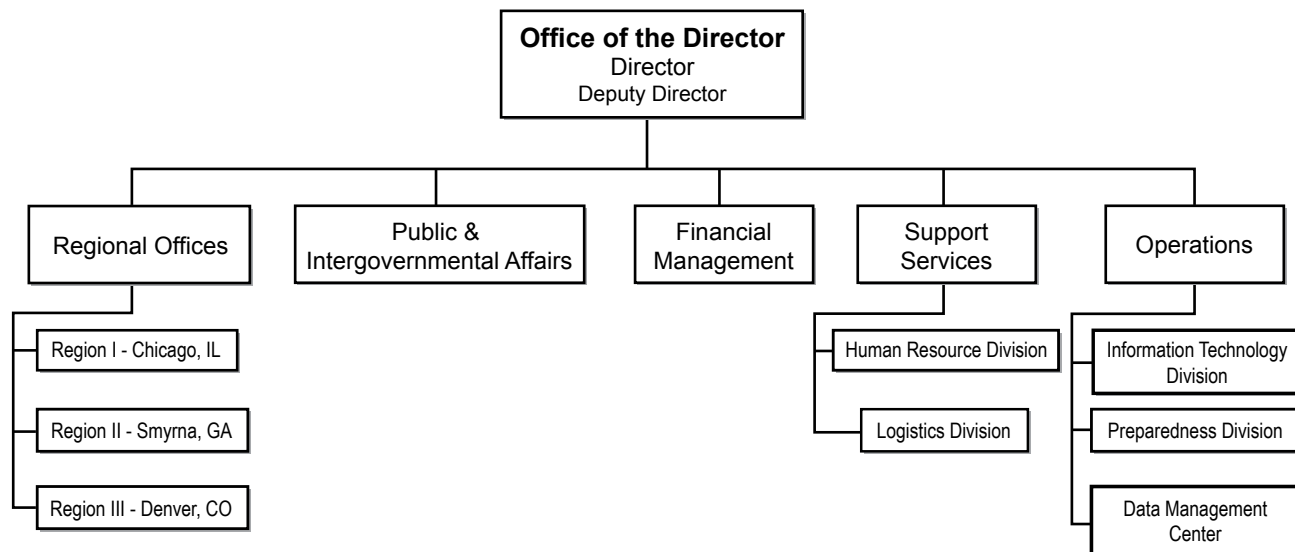
The SSS is comprised of a diverse composition of career employees, military personnel, and private citizen volunteers dedicated to satisfy its statutory goals of peacetime registration and mobilization readiness. The SSS is currently authorized 136 full-time equivalent civilian positions going into FY 2008. The Agency also is authorized 750 Reserve Force Officers (RFOs) and is currently funded for 200 positions comprised of military personnel representing all of the U.S. Armed Services. The SSS' RFOs are assigned throughout the U.S. and its territories where they perform monthly training, executing a variety of critical peacetime and mobilization missions. They are "grass root" SSS contacts for state and local agencies and the public.

The largest component of the Agency’s workforce is the 11,028 uncompensated civilian men and women who serve as volunteer Local, District, and National Appeal Board Members. In the event of a mobilization, these citizen volunteers will decide the classification status of men seeking exception or deferments, based on conscientious objection, hardship to dependents, or their status as ministers or ministerial students, after the men have been cleared for induction into the Armed Forces.

In addition to those private citizens who support our peacetime mobilization programs, nearly 89% of the Nation’s 20,759 high schools participate in the SSS’ high school Registrar Program. These 18,401 registrars are uncompensated civilian volunteers who are authorized to administer and receive registrations from young men. Their public service is an invaluable asset and is important to the success of the Agency’s peacetime registration efforts. They remind America’s young men of their registration obligation and help ensure that the men remain eligible to take advantage of the numerous Federal and state benefits that are tied to the registration requirement.



Selective Service System Organizational Chart





Performance Highlights

The SSS's goals are:

- Ensure preparedness and the capacity to provide timely manpower to the DoD during a national emergency.
- Ensure management excellence.

Goals Overview

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

Objective 1: Be prepared to call, classify, and deliver personnel.

In the event of a mobilization, the SSS will hold a national draft lottery, activate Agency components, contact those registrants who have been selected via the lottery, and arrange for their transportation to a MEPS for physical, mental, and moral evaluation, and as required send induction notices.

Significant Activity:

The Agency continues its development of a Central Registrant Processing Portal (CRPP) which will integrate all of the Agency's existing mobilization automated systems into one central, Web-based portal. The CRPP will incorporate the functionality of a conventional and Health Care Personnel Delivery System; Induction, Claims, and Appeals Systems; and Alternative Service Program.

The SSS continues to update its National Headquarters Basic Readiness Plan which provides guidance for the activation of mobilization plans when requested by the President and approved by the Congress. The Readiness Plan is comprised of Standard Operating Procedures that define and govern the operational activities of the Agency during a mobilization.

The SSS also re-wrote its Continuity of Operations Plan to reflect the change from utilizing a Government Relocation Site to the use of employee home locations.

Objective 2: Ensure acceptable registration compliance rates.

The higher the registration rate, the more fair and equitable any future draft will be for each registered individual. 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, and U. S. citizenship for male immigrants.



Significant Activity:

The roster of jurisdictions that have enacted driver's license legislation linking acquiring a driver's license or a state identification card, which promotes satisfaction of the Federal Selective Service registration requirement, now totals 36 states, three territories, and the District of Columbia.

Goal 2: Ensure management excellence.

In concert with the President's Management Agenda (PMA), the SSS continues the implementation of its a multi-year technology upgrade of the Agency's hardware, software, and systems development processes as it replaces selective technology. An overall plan and strategy to ensure alignment and integration among its human capital management process and the financial, operational, information technology, and logistical processes are underway. Included in that plan is an expansion of the Agency's e-government, budget and performance integration, and improvements in financial performance initiatives. The Agency's procurement of a complete Integrated Financial Management System will finally enhance its ability to align its budgetary resource expenditures with Agency's goal performance.

Objective 1: Effective and efficient resource and procurement management.

An increased focus on improving policies, procedures, and standards is necessary to better align Agency operations with the PMA. Over the next five years, the Agency projects a larger than average rate of retirement, increased hiring competition from the public and private sectors, and continued fiscal pressures. The implementation of a Human Capital Management Plan (HCMP) is crucial as it will provide a tool to better manage the Agency's most valuable resource – its personnel. Similarly, during the same period, the development of expert systems and processes will be required to upgrade the Agency's acquisition system.

Significant Activity:

The Agency continues to work towards full implementation of its new HCMP which covers activities, measures, and expected outcomes in the areas of strategic alignment, leadership and knowledge management, performance culture, and talent management and accountability. More detailed discussion of the HCMP is outlined later under the Strategic Plan section of this report.

Objective 2: Effective and efficient financial management.

Financial management activity continues to focus on enhancing and improving operational practices in an effort to achieve success in support of the PMA. The basic goal remains to achieve a "clean audit" opinion in adherence with the Accountability of Tax Dollars Act of 2002. In accordance with the PMA, the Agency has completed its implementation of an integrated financial management system (Oracle Federal Financial (OFF) system). This has provided improvements in the financial performance arena and an overall upgrade in the areas of budget, human capital, and performance integration. In addition, the e-Government initiative, to automate all government travel under one global e-Travel concept, has been successfully implemented. These are the primary activities that are being employed to improve the management and performance of the Agency and ultimately the Federal Government as part of the financial management effort.



Significant Activity:

The deployment of the OFF system was completed during this period. The OFF system serves as the Agency's primary conduit for implementing the overall financial management software system. The system modules controlling the acquisition and property management were completed and implemented to ensure that all acquisitions are catalogued and included in the property management system. The automated E2 Travel system has been deployed to support the travel of employees. The Agency has chosen to streamline the approval process for all travel requests. This streamlining process has centralized all approvals at the National Headquarters level and has significantly reduced the number of errors experienced with submissions.

Objective 3: Effective and efficient information technology management.

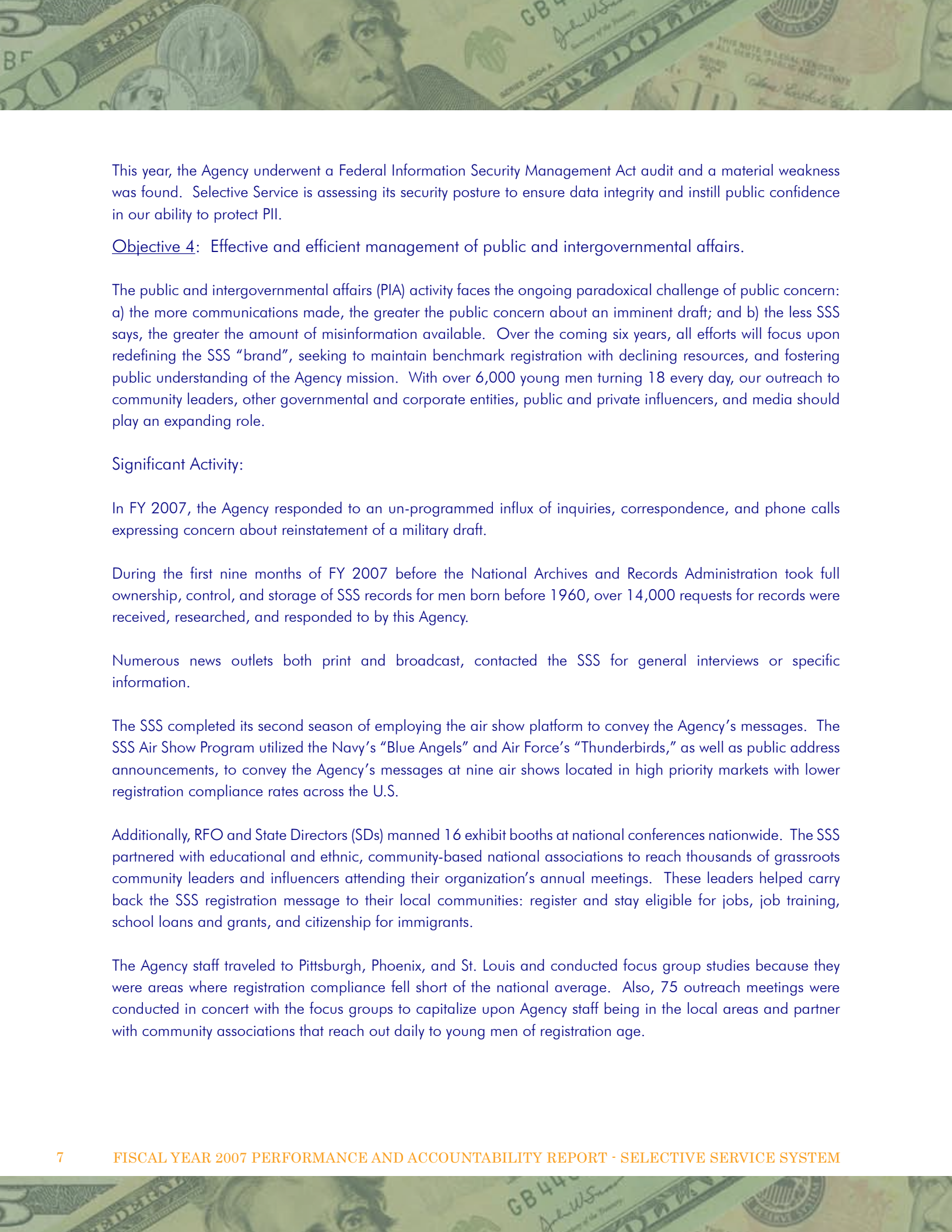
The Agency continues its multiyear efforts to modernize the technical environment of the Agency in accordance with the PMA, Government Performance Results Act, Information Technology Management Results Act, Federal Information Security Management Act, and other statutory or regulatory documents. During the next five years, the Information Technology (IT) staff will provide leadership, innovations, flexibility, and responsive technical services while expanding information resources, access, and solutions for the Agency. It will create a secure technically advanced information environment that will facilitate numerous enhancements and increase SSS' capabilities to effectively satisfy mission requirements.

Significant Activity:

The SSS continued to update its IT network to help meet the President's e-Government initiative. A new web server adhering to the latest security standards was installed this year to host the Agency's public Web site (www.sss.gov). This site provides several services to the general public such as online registration through which a man can register with Selective Service in real-time. The site also features registration verification with which an individual can check an existing registration. Work also began to upgrade the current Interactive Voice Response (IVR) system that automatically handles telephone calls to SSS.

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

Information security continued to be a major focus during this fiscal year, and the Agency remains committed to securing and protecting personally identifiable information (PII) it receives from men complying with the registration requirement. No security breaches occurred at SSS, but the Agency did work with the U.S. Computer Emergency Readiness Team to mitigate a number of incidents in which a registrant's data was captured by a malicious keystroke logging program which infected a number of computers external to SSS. Also, the Agency's firewalls and intrusion detection systems intercepted and stopped approximately 250,000 attacks per week against the SSS' network.



This year, the Agency underwent a Federal Information Security Management Act audit and a material weakness was found. Selective Service is assessing its security posture to ensure data integrity and instill public confidence in our ability to protect PII.

Objective 4: Effective and efficient management of public and intergovernmental affairs.

The public and intergovernmental affairs (PIA) activity faces the ongoing paradoxical challenge of public concern: a) the more communications made, the greater the public concern about an imminent draft; and b) the less SSS says, the greater the amount of misinformation available. Over the coming six years, all efforts will focus upon redefining the SSS “brand”, seeking to maintain benchmark registration with declining resources, and fostering public understanding of the Agency mission. With over 6,000 young men turning 18 every day, our outreach to community leaders, other governmental and corporate entities, public and private influencers, and media should play an expanding role.

Significant Activity:

In FY 2007, the Agency responded to an un-programmed influx of inquiries, correspondence, and phone calls expressing concern about reinstatement of a military draft.


During the first nine months of FY 2007 before the National Archives and Records Administration took full ownership, control, and storage of SSS records for men born before 1960, over 14,000 requests for records were received, researched, and responded to by this Agency.

Numerous news outlets both print and broadcast, contacted the SSS for general interviews or specific information.

The SSS completed its second season of employing the air show platform to convey the Agency’s messages. The SSS Air Show Program utilized the Navy’s “Blue Angels” and Air Force’s “Thunderbirds,” as well as public address announcements, to convey the Agency’s messages at nine air shows located in high priority markets with lower registration compliance rates across the U.S.

Additionally, RFO and State Directors (SDs) manned 16 exhibit booths at national conferences nationwide. The SSS partnered with educational and ethnic, community-based national associations to reach thousands of grassroots community leaders and influencers attending their organization’s annual meetings. These leaders helped carry back the SSS registration message to their local communities: register and stay eligible for jobs, job training, school loans and grants, and citizenship for immigrants.

The Agency staff traveled to Pittsburgh, Phoenix, and St. Louis and conducted focus group studies because they were areas where registration compliance fell short of the national average. Also, 75 outreach meetings were conducted in concert with the focus groups to capitalize upon Agency staff being in the local areas and partner with community associations that reach out daily to young men of registration age.



Further, PIA distributed its new radio package, “Something Every Young Man Needs to Know,” with a compilation of 19 radio spot public service announcements in English and Spanish and announcer-read scripts for live radio public service announcements to all major media markets. However, no television public service announcements were produced or distributed this year.

Finally, SSS High School Publicity Kit materials were distributed in March 2007 to more than 32,000 high school principals and SSS high school registrars who are members of the staff or faculty. The kit featured posters and other communication materials with an important registration message for high school men.

Strategic Planning and Reporting

This Report is aligned with the SSS’ Strategic Plan (FY 2006 - 2011) and is an outgrowth of extensive internal evaluations of Agency statutory responsibilities viewed in light of new challenges, fiscal issues, and the needs of Agency customers. Measurement of the Agency’s institutional progress toward improved programmatic activities, service to customers, and the prudent management of fiscal resources is the basis for the development of this plan. Performance measurement provides the path for assessing accountability between the Agency’s long-term strategic vision and the day-to-day activities of its employees.

Planning and Funding Challenges


The challenges of integrating budget and performance are somewhat clouded in that all funds for the SSS are allocated in one appropriation. This one appropriation (Salaries and Expenses) is allocated throughout the Agency to support salaries and expenses, as well as programs. Thus, it is somewhat difficult to link the amount of appropriated funds with the level of program results for any particular fiscal year since the salaries and expenses are consolidated with programmatic costs. The introduction of a new, integrated financial management system during FY 2007 has helped to alleviate some of the complexity associated with this effort during Fiscal Year 2007. In addition, management has taken a new approach toward identifying individual programmatic costs at the directorate level to assist with the effort to integrate budget with performance at the program level.

While the primary focus of the Agency is to register men for the possibility of a draft, it should be noted that all performance results continue to be accumulated toward that goal. As such, this report endeavors to show how the FY 2007 budget allocation was expended in support of the Agency’s Strategic Goals and Objectives.

Financial Highlights

Financial Position

FY 2007 is the fourth full year of operation where the SSS’ audited financial statements are being submitted to Office of Management and Budget (OMB) in compliance with the Accountability Act of Tax Dollars of 2002. The preparation of these statements is a part of the Agency’s goal to improve financial management and provide accurate and reliable information that is useful for assessing performance and allocating resources.



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

The Agency's financial management team and leadership intend to optimize utilization of all available resources and thus increase its ability to meet the stated strategic goals and objectives of the Agency.

Balance Sheet

The balance sheet displayed on page 62 reflects total assets of \$15.6M for the Agency. This is a net change of 14.3% over the previous fiscal year's total. This change also is attributable to management's strict adherence to the guidelines and mandates as outlined in the PMA. Likewise, the Agency has maintained a strict adherence to the Prompt Payment Act.

Statement of Net Cost

The Agency's costs are consistent with its stated Strategic Goals and Objectives, the PMA, and its appropriated budget. The SSS has maintained an essentially straight-lined budget from FY 2004 to FY 2007; consequently, there has been some mission readiness degradation as directed by Administration and Congressional guidance.

Statement of Budgetary Resources

This statement provides information about the provision of budgetary resources and their status as of the end of the reporting period. The statement displayed on page 65 shows that the Agency had \$30M in budgetary authority of which \$1.0M remained unobligated, with \$5.6M not available at year-end. The Agency had \$23.8M in Net Outlays for FY 2007.

Financial Management

The Agency has completed the effort of implementing the OFF system and is now working toward enhancing its utilities throughout its organizational elements to include the Field Offices. One of the major challenges facing the Agency is integrating the financial management system with the newly adopted automated E2 travel and transportation system. In accordance with the General Services Administration's (GSA) mandate and guidance, the Agency implemented the e-Travel program in FY 2007 to transfer travel-related activities to the automated E2 travel system. The E2 travel system provides an automated ticketing, reservation, and claims processing tool whereby employees are relieved of the requirement of submitting paper vouchers for reimbursement, among other advantages.

Utilizing the OFF system, the SSS has enhanced its capability to develop methodologies that will help to ensure that the Agency is able to integrate its budget and performance data as part of its budgetary processes.



Management's Discussion And Analysis

Systems, Controls and Legal Compliance

Management Assurances

Statement of Assurance

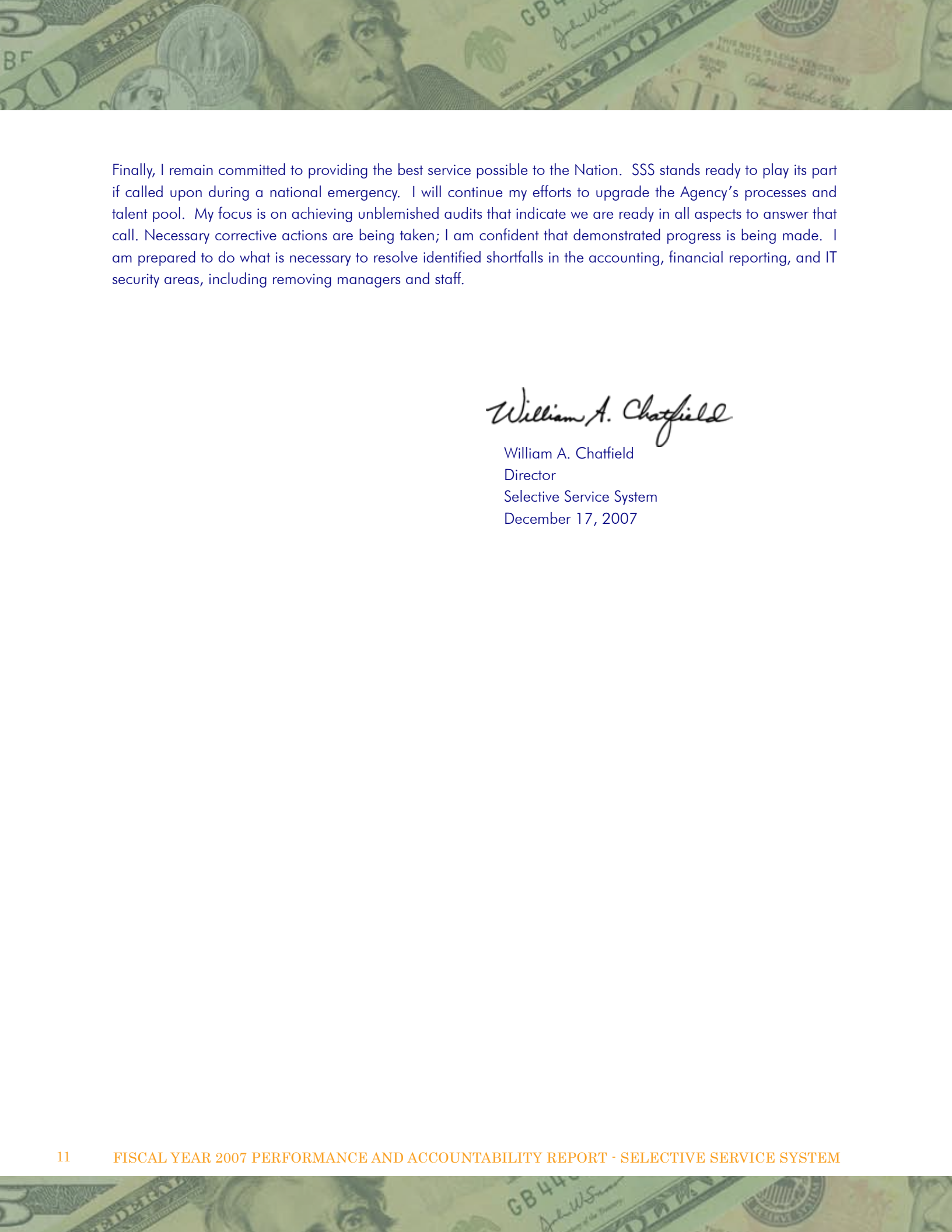
The Selective Service System (SSS) management is responsible for establishing and maintaining effective management control, financial management systems and internal control over financial reporting that meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA). SSS provides a qualified statement of assurance that management control, financial management systems, and internal controls over financial reporting meet the objectives of FMFIA, with the exception of two material weaknesses: (1) Information Technology (IT) Security Program, and (2) Controls Over Financial Management.

SSS conducted its assessment of the financial management systems and internal control over (1) the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of September 30, 2007, and (2) financial reporting as of September 30, 2007, which includes safeguarding of assets and compliance with applicable laws and regulations, in accordance with the requirements of the Office of Management and Budget Circular A-123, "Management's Responsibility for Internal Control."

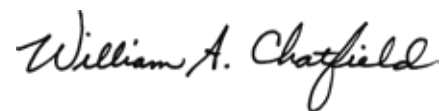
This year's financial audit clearly indicated to me that changes in leadership and in process were necessary. The accounting system and management controls currently in place do not satisfy my standards for accountability and integrity. Specifically, material weaknesses involving internal controls over accounting operations, transaction processing, and financial reporting, including documenting the control procedures and related financial management operational processes, have led me to replace the Agency's Comptroller and contract with our shared service provider, the Department of the Interior's National Business Center (NBC), to find and correct errors so that we can prepare valid financial statements for FY 2008. SSS has already participated in task teams to scope the full issues and develop solutions.

As part of this evaluation, I instituted major upgrades to our antiquated accounting and information technology systems. The process of implementing these system-wide changes has taken longer than I anticipated. While our new integrated financial system is state of the art, I find that the skill set of my financial staff is not. I am equally concerned by issues of "time, talent, and money" while trying to upgrade a Defense Department-hosted mainframe computer system and the Agency's IT skill sets to meet today's automated environment. And my new financial management team identified a potential violation of the Anti-Deficiency Act that and immediately took corrective action. This possible violation relates to an over-recording of obligation for FY 2007.

Other than the exceptions noted in the FMFIA sections, financial management systems conform with the objectives of FMFIA and the internal controls were operating effectively and no other material weaknesses were found in the design or operation of the internal control over (1) the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of September 30, 2007, and (2) financial reporting as of September 30, 2007.



Finally, I remain committed to providing the best service possible to the Nation. SSS stands ready to play its part if called upon during a national emergency. I will continue my efforts to upgrade the Agency's processes and talent pool. My focus is on achieving unblemished audits that indicate we are ready in all aspects to answer that call. Necessary corrective actions are being taken; I am confident that demonstrated progress is being made. I am prepared to do what is necessary to resolve identified shortfalls in the accounting, financial reporting, and IT security areas, including removing managers and staff.



William A. Chatfield
Director
Selective Service System
December 17, 2007



Federal Managers' Financial Integrity Act Report on Management Control

Background

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

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

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

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

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

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

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

FY 2007 Results

In FY 2006, an independent accounting firm identified one material weakness: Controls over Financial Management. During FY 2007, SSS was not able to reduce or resolve this material weakness. Two new material weaknesses were added in FY 2007. SSS now has a total of three material weaknesses. Therefore, the “Director’s Statement of Assurance” provides qualified assurance that SSS’ system of internal control complies with FMFIA’s objectives. Exhibit 1 provides a summary of the material weaknesses.

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	1	1	0	0	0	2
IT Security	0	1	0	0	0	1
Total Material Weaknesses	1	2	0	0	0	3

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

Required Reporting

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

Exhibit 2: Summary of Management Assurances

Effectiveness of Internal Control Over Financial Reporting (FMFIA 2)

Statements of Assurance Unqualified

Material Weakness	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Controls Over Financial Management	1	1	0	0	0	2
Total Material Weaknesses	1	1	0	0	0	2

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	1	0	0	0	1
Total Material Weakness	0	1	0	0	0	1

Conformance with Financial Management System Requirements (FMFIA 4)

Statements of Assurance Unqualified

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

Outstanding Material Weakness

SSS was not able to resolve its material weakness in FY 2006.

New Material Weaknesses

The independent audit identified two new material weaknesses: (1) IT Security Program, and (2) Controls Over Financial Management.



IT Security Program

During the FISMA audit, several problems were identified that represent material internal control weaknesses in the Agency's IT security program. We identified weaknesses, developed a corrective action plan with measurable milestones to address and resolve these problems while simultaneously managing Agency-wide upgrades and improvements. We were able to make partial headway on these issues but recognize we have a long way to go. The recommendations offered by the audit have been adopted by SSS and we have incorporated necessary FY 2007 corrective action into the ongoing plan. Approximately one-third of the tasks have been completed and significant progress has been made with the remaining actions. We anticipate completing at least half of the tasks by the end of calendar year (CY) 2007 and the remaining tasks during the first quarter of 2008.

Financial Reporting – Controls over Financial Management

SSS uses the accounting system of the Department of Interior called Oracle. Its implementation has impacted the internal control system. The auditors' findings are as follows: SSS needs to strengthen its internal controls over financial reporting and document the control procedures and related financial management operational processes in the Agency's accounting policy manual. With the implementation of new financial and property management systems and changed financial management processes within the Agency, SSS accounting guidance should be updated to contain sufficient information on internal controls over financial reporting. We found problems with accounting operations in several key areas and financial statements and related footnotes contained unsupported reconciling items, or were not correctly prepared. In addition, the general ledger and property systems did not function in accordance with Federal accounting requirements which contributed to the extensive efforts needed to prepare the FY 2007 financial statements and footnotes for SSS.

Summary of Outstanding Material Weaknesses

Material Weakness	1. SSS Financial Management	Overall Estimated Completion Date FY 2007
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Existing	SSS needs to strengthen its internal controls over financial reporting, and document the control procedures and related financial management operational processes in the Agency's accounting policy manual.	
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FY 2007 Accomplishments	Planned Actions
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NA (None)	NA (Incorporated in FY 2008)
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Material Weakness	1. IT Security Program	Overall Estimated Completion Date FY 2008
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New	Several problems were identified which represent material internal control weaknesses to the Agency's IT security program. Improvements are needed in IT security covering eight areas.	
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Planned Actions

- Update IT security procedures
- Strengthen security controls
- Provide specialized training to DMC personnel
- Incorporate NIST guidance in SSS' contingency planning
- Ensure that the Registration system include NIST requirements
- Ensure that capital planning for IT meets OMB requirements

Material Weakness	1. SSS Financial Management	Overall Estimated Completion Date FY 2008
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New	SSS needs to strengthen its internal controls over financial reporting, and document the control procedures and related financial management operational processes in the agency's accounting policy manual.	
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Planned Actions

- Recruit accounting officer and possible consultant
- Document operating procedures
- Prepare accurate and timely budgetary reports
- Reconcile differences between SSS' general ledger and treasury records
- Establish separation of duties in financial management.
- Ensure that journal vouchers have required supported documentation.



President's Management Agenda

The SSS seeks continuous improvements to its operations through an array of programs and policy changes based upon the PMA. The SSS' strategy is to utilize e-commerce initiatives to improve the Agency's procurement and financial processes through the implementation of an integrated financial management system. The Agency's agreement with NBC to implement and integrate the e-Travel program continued in FY 2007. The Agency has also completed the automation of its security clearance processes utilizing new technology to enhance programs and services. The e-Quip process, sponsored by the Office of Personnel Management, is functioning properly. The SSS has shifted contract support from NBC to the General Services Administration to meet the personnel identification and verification requirements of HSPD-12.

The Agency will continue to expand upon workforce development strategies and the Human Capital Management Plan (HCMP) to close most mission-critical skills, knowledge, and competency gaps. The Agency's shared service provider for human capital activities is NBC. The SSS contracted with NBC for the development of the HCMP during FY 2007. This work includes analysis of SSS mission, goals, and organizational objectives which will result in an action plan and an accountability system for achieving activities, measures, and expected outcomes in the areas of: strategic alignment, leadership and knowledge management, performance culture, talent management and accountability. The Agency continues to use the online learning portal, GoLearn, to provide its employees and managers with support tools to help assist in meeting the training needs of the Agency's workforce. The Agency improved the work-life aspects of the job by increasing the capabilities to support telework and expanding participation in the program to cover over 70% of the workforce. Additional flexibilities have been added to work schedules to heighten morale and enhance job performance, as well as improve recruitment and retention efforts.

The SSS is continuing to develop and implement an aggressive technology upgrade of both hardware and software and its systems development process in an effort to replace selective IT technology. This effort is focused on the creation of a forward-looking IT environment capable of handling both the Agency's current operations as well as its post-mobilization operations.

During 2007, the SSS continued work on a major modernization effort to migrate all of its Registration, Compliance, and Verification information systems from a mainframe platform to a modern server-based environment. This effort will decrease operating and maintenance costs, ensure system compliance with all Federal Security and Information Technology Requirements (FISMA, NIST, Clinger Cohen Act, Paperwork Reduction Act, etc.), increase the Agency's technical capabilities, and allow seamless integration with the other systems throughout the Agency's Enterprise Architecture. The new system is projected to provide a positive return on investment within approximately three years.

The Agency has completed the effort of implementing the OFF system and is now working toward enhancing its utilities throughout its organizational elements to include the Field Offices. One of the major challenges facing the Agency is integrating the financial management system with the newly adopted automated E2 travel and transportation system. In accordance with the General Services Administration's (GSA) mandate and guidance, the Agency implemented the e-Travel program in FY 2007 to transfer travel-related activities to the automated E2 travel system. The E2 travel system provides an automated ticketing, reservation, and claims processing tool



whereby employees are relieved of the requirement of submitting paper vouchers for reimbursement, among other advantages.

Utilizing the OFF system, the SSS has enhanced its capability to develop methodologies that will help to ensure that the Agency is able to integrate its budget and performance data as part of its budgetary processes.

Additional efforts in the areas of procurement, human capital management, and information technology will be implemented as resources and technical support are identified to enable the Agency to follow the guidance set by OMB, OPM, DoE, and others.

Performance Details

Program Evaluation

Program evaluation within the SSS has expanded greatly since the Agency implemented GPRA. The scope of evaluations has grown beyond those designed to satisfy regulatory requirements. What has evolved in the Agency is a system where all of its major programs are evaluated on a regular basis with special focus placed on procedures where specific problems or deficiencies are identified. Thus, the Agency is better able to assess the effects of new or continuing initiatives on program performance and customer satisfaction. These evaluations also are used to build baselines for performance goals and validate the results of the data contained in the Performance Report.

The program evaluations for this report were independent systematic studies conducted to assess how well programs were working and if they should be continued/maintained. 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 2007

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

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

Program evaluations were scheduled and conducted for the following areas:

- Registration and Registration Compliance Programs
- Registrar Program
- Federal Information Security Management Act
- Financial Management
- Administrative Support Services



Program evaluation/reviews were conducted for each of the above listed FY 2007 annual performance goals, the results of which are identified and discussed in the next section of this report.

FY 2007 Performance

This FY 2007 PAR identifies the activities and strategies that took place during the fiscal year to achieve Agency goals and objectives. It also identifies relevant performance measurement target goals to be achieved.

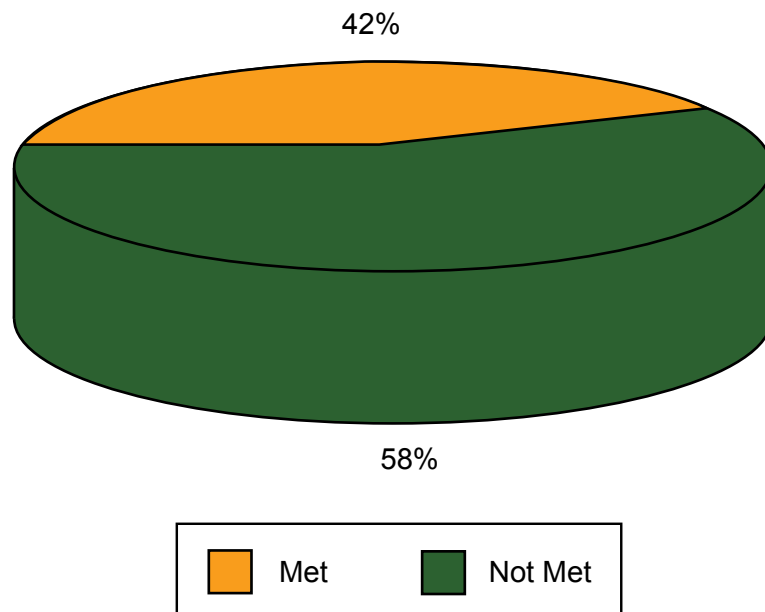
The following is a list of the annual SSS Performance Goals as outlined in the FY 2007 Performance Budget.

Performance Goals

1. Systems test the Preparedness Functionality (Registrant Management, Claims/Appeals Processing, Alternative Service Management, Location Management, RFO Management, Board Member Management, etc.) with the results validating the design of the security and mobilization phases of the CRPP.
2. Develop an evaluation that will test the automation, policy directives, and physical movement of individuals from the selection process through the transfer of responsibility to the Armed Forces.
3. Attain a 96% or greater registration compliance rate for men ages 18 through 25.
4. Attain and appoint Registrars in 87% of the Nation's high schools
5. Obtain 86% of all registrations electronically.
6. Implementation of the SSS Human Capital Plan.
7. Implementation of the Acquisition and Logistics Management Plan.
8. Implementation of Financial Management IT Plans.
9. Complete Performance and Budget Integration.
10. By June 2007 – Design, develop, and implement plan for migration off mainframe.
11. Distribute quality public service advertising materials to every national media market and obtain public service air time in at least 90% of the major markets and 95% of all media markets.
12. Improve the turnaround times, in accordance with provisions of the Agency's Administrative Services Manual, for all types of responses: White House, congressional, media, registrants, and the general public.

SSS Performance

Summary of Achievement FY 2006 Performance Goals



Strategic Goal 1: Ensure preparedness and the capability to provide manpower to DoD during a national emergency.

In the event of a mobilization, the SSS will hold a national draft lottery, contact those registrants who have been selected via the lottery, and arrange their transportation to a Military Entrance Processing Station (MEPS). This procedure would be followed by a mobilization of trained and/or untrained personnel as outlined in the Military Selective Service Act.

Objective 1: Be prepared to call, classify, and deliver personnel.

For FY 2007, the SSS set two performance goals for Objective 1.

- Systems test the Preparedness Functionality (Registrant Management, Claims/Appeals Processing, Alternative Service Management, Location Management, RFO Management, Board Member Management, etc.) with the results validating the design of the security and mobilization phases of the CRPP.
- Develop an evaluation that will test the automation, policy directives, and physical movement of individuals from the selection process through the transfer of responsibility to the Armed Forces.

Performance Measure	Objective	2003	2004	2005	2006	2007	2008
Systems test the Preparedness Functionality (Registrant Management, Claims/Appeals Processing, Alternative Service Management, Location Management, RFO Management, Board Member Management, etc.) with the results validating the design of the security and mobilization phases of the CRPP.*	1.1	-	-	-	-	Postponed	Postponed
Develop an evaluation that will test the automation, policy directives, and physical movement of individuals from the selection process through the transfer of responsibility to the Armed Forces.*	1.1	-	-	-	-	Postponed	Postponed
Plan an AO Mobilization Prototype Program Evaluation that will test mobilization personnel delivery systems and support programs. **	1.1	Develop	Replaced	Postponed	Postponed	Cancelled	-
Update and maintain the Agency Readiness Plans. **	1.2	Complete	Complete	Complete	Complete	Update	Maintain
Ensure that 90% of State Directors (SD) and (Reserve Force Officers RFO) are capable of implementing Registration Improvement Program functions and responsibilities. **	1.3	-	-	-	93%	-	-
Achieve training results indicating that 90% of SDs and RFOs are trained to predetermined standards.**	1.3	96%	96%	97%	93%	-	-
Ensure that 90% of assigned SDs and RFOs are trained. **	1.3	-	-	-	93%	-	-
Achieve distribution of 100% of updated training documents to SDs, RFOs, Uncompensated Personnel (Local, District Appeal, and National Appeal Board Members). **	1.4	-	-	-	100%	100%	Update
* New 1st year goal aligned with the objectives contained in the SSS FY 2006-2011 Strategic Plan.							
** Goal aligned with the last previous SSS Strategic Plan, FY 2001 – 2006.							



Performance Goals

- 1. Systems test the Preparedness Functionality (Registrant Management, Claims/Appeals Processing, Alternative Service Management, Location Management, RFO Management, Board Member Management, etc.) with the results validating the design of the security and mobilization phases of the CRPP.**

Plan an Area Office (AO) Mobilization Program Evaluation for FY 2007.

Was the goal achieved? No. The program evaluation was postponed until FY 2010.

Results: Planning activities are scheduled to begin in FY 2010.

Discussion: A further reassessment of the Agency's business rules was conducted in FY 2006. The development of the CRPP, which is scheduled for completion in 2010, will capture the refinements to the business rules. During FY 2006 and FY 2007, the internal team assigned to complete the CRPP software has been reduced from six to three members. Two staff members were lost due to retirement and one of the staff members has since been reassigned. The initial projection to attain this goal in FY 2007 was based on the availability of the full team of six members. In addition, the existing staff members were trained in the new technologies being implemented on the CRPP project over the course of FY 2006 and FY 2007.

The plans for the evaluation will entail designing a total mobilization evaluation that will be tailored to evaluate the SSS' mandates for a mobilization of any type. The sheer size and detail of the evaluation will take approximately 18 months to produce. The final product will be tested in the field in FY 2010.

Impact: Due to the 50% reduction in staff assigned to the project and the current team members being less experienced with the technologies involved, the team has thus far not been able to perform within the timelines originally projected. With the current staff and resources assigned to this project, this goal will not be attained until FY 2010 at the earliest. The delay in conducting the evaluation until FY 2010 is expected to have minimal impact on the Agency's mobilization readiness as current programs will remain on the shelf until the required changes have been made, tested, and refined.

Planned Actions/Schedule: The Operations Directorate has put into place plans to mitigate this problem by recruiting two FTEs to supplement the team internally as well as budgeting additional funds in FY 2009 to outsource the development of the project. During FY 2009 all actions required to develop the FY 2010 program evaluation will get underway. These actions include: outlines, plans, schedule evaluations, development of timelines, and determination of IT interface requirements.

Verification and Validation: Testing and evaluation standards will be developed to validate program evaluation results.

2. Develop an evaluation that will test the automation, policy directives, and physical movement of individuals from the selection process through the transfer of responsibility to the Armed Forces.

Was the goal achieved? Yes.

Results: The Operations Directorate, Planning Division began updating the Agency's Readiness Plans in 2005 to prepare for any future mobilizations. The Readiness Plan Executive Summary was finalized and signed in September 2006. The build out of the plan provides planning guidance for activation of the SSS upon mobilization when directed by Congress and the President. This all-encompassing plan provides guidance for Local and Appeal Boards and is the foundation for all supporting field plans. Every module in the Readiness Plan includes the development of Standard Operating Procedures (SOP) for every mobilization function.

Discussion: The re-write of all Readiness Plans was necessary due to the extensive reorganization the Agency has undergone, along with changes in supporting revised governmental directives and procedures.

Impact: The plans will contain the most current and up to date guidance to meet all internal and external mandates.

Planned Actions/Schedule: Readiness Plans are continuously being updated. Unscheduled updates are performed as changes occur.

Verification and Validation: Testing and evaluation standards are being developed to validate the new plans.

Objective 2: Ensure acceptable registration compliance rates.

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

For FY 2007, the SSS set three performance goals for Objective 2.

- Attain a 96% or greater registration compliance rate for 18- through 25-year-old men.
- Attain and appoint Registrars in 87% of the Nation’s high schools.
- Obtain 86% of registrations electronically.

Performance Measure	Objective	2003	2004	2005	2006	2007	2008
Attain a 96% or greater registration compliance rate for men ages 18 through 25 years of age.	1.2.1	91%	91%	93%	93%	NA*	NA*
Attain and appoint Registrars in 87% of the Nation’s High Schools.	1.2.1	82%	84%	85%	87%	87%	NA*
Obtain 86% of all registrations electronically.	1.2.2	70%	75%	79%	82%	83%	NA*

* Not available until after the end of the calendar year.

Performance Goals

1. **Attain a 96 % or greater registration compliance rate for men ages 18- through 25-year olds.**

This goal is a Calendar Year goal. FY 2007 goal percentage will not be available until March 2008.

Was the goal achieved?

Current status information for this goal is not available. Results for this goal will not be available until the end of the Calendar Year.

March 2007 registration reports indicated that for CY 2006 the year group registration rate was 93 percent. (See note below)

Results:

Projected: 96 percent (18-25 YOY Groups)

Discussion:

Registration is a crucial component of any future induction or draft to furnish personnel to the Department of Defense in the event of a national emergency declared by the Congress and the President. The primary factors that foster registration compliance include: (1) increase in the enactment in states and territories of driver’s license legislation requiring registration with the SSS to obtain a motor vehicle driver’s license or state identification card; (2) continued use of on-line registration via the SSS Web site (www.sss.gov), (3) increased emphasis on soliciting volunteer SSS High School Registrars; (4) additional mailings to states having the lowest compliance rates, along with 19 year-olds nationwide who had not registered; (5) targeted cost effective registration awareness initiatives,



including public service broadcast messages (in English and Spanish); and outreach efforts to the educational and community leaders and influencer groups.

Impact:

Efforts to increase registration compliance will help ensure fairness and equity in any future draft. During FY 2007, however, as a result of OMB and Social Security Administration identity theft/privacy requirements, the SSS was required to redesign SSS Form 1M (UPO) and SSS Form 2 (Change of Information) post office registration forms. Also, all Registration Compliance mailings were reverted to letter format.

The diversion of preprogrammed funds for Reminder Card mailings resulted in those mailings being suspended indefinitely. This coupled, with a reduction in the allocation of funds for Registration Awareness, may lead to a decline in registrations for FY 2007. (Under the reduced FY 2008 budget allocation, the SSS will be unable to produce or distribute radio public service announcements. This will most likely adversely impact Registration Compliance.)

Planned Actions/Schedule:

With no increase in funding for the Registration Improvement Process, the Agency will continue to capitalize upon existing resources and modified programs as outlined in Agency Directive 600-23 (Registration Improvement Plan, FY 2008). For FY 2008, primary registration improvement emphasis will continue to be used to assist states and territories in their efforts to enact legislation requiring SSS registration in order to obtain a driver's license or identification card. Our goal is 100% coverage of the Nation's potential registrant population. As each state/territory comes on line, it is anticipated that the percentage of electronic registrations will increase, resulting in lower costs expended by the Agency for registration compliance.

Verification and Validation:

Agency Directive 600-14 (Registration Statistics Reporting System (REGSTATS), dated June 1, 1999), outlines the methodology employed. The methodology is consistent and adequate based upon generally accepted statistical practices.

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



2. **Attain and appoint Registrars in 87% of the Nation's high schools.**

Was the goal achieved? Yes.

Results: Projected: 87 percent - Actual: 87 percent.

Discussion: As of September 30, 2007, 89% of the Nation's 20,749 high schools were participating in SSS' High School Registrar Program. Registrars are uncompensated civilian volunteers who are authorized to administer and receive registrations from young men. The High School Registrar Program is a most effective awareness program that informs male students -- face-to-face -- about the requirement to register with the SSS. Registration is a prerequisite for many Federal job opportunities and student financial assistance programs. The program also provides a convenient location for young men to register -- their high school.

The High School Registrar Program is augmented by additional uncompensated SSS Registrars for the Farmworkers Opportunity Program and the Workforce Investment Act Program. The result has increased registration awareness and higher compliance by registration age men participating in those programs. On-line registrant verification resulted in improved customer service by providing High School Registrars, as well as registrants, Student Financial Aid Officers, and Workforce Investment Act officials, the ability to check or verify registrations through the Agency.

Impact: Increased estimated registration compliance for the 18 Year of Birth Group and improved customer service to prospective registrants.

Planned Actions/Schedule: The Agency continues to: implement registration public awareness initiatives in those states/territories that have not as of yet enacted legislation requiring registration with Selective Service to obtain a motor vehicle operator license or state ID card; track responses to solicitation letters to high schools; and, enhance materials used to conduct the program. The SSS will monitor the participation of high schools in the programs and conduct visits to high schools to further explain the benefits of the program including the use of the Internet to apply to be a Registrar. Registrars facilitate registration of young men and can verify or check a registration; Agency personnel evaluate feedback from personal contact with high school administrators and Registrars; encourage Agency force multipliers (i.e. uncompensated Board Members and State Resource Volunteers), as well as paid staff to "Adopt-a-High School" to solicit registrars, especially in state/territories



without implemented driver's license legislation; and, implement national registration improvement programs such as those outlined in Agency Directive 600-23 (Registration Improvement Plan, FY 2008). Various organizational echelons in the SSS track all responses and programmatic feedback on registration compliance.

Verification and validation: Agency Headquarters Order 97-16 (The SSS Registration Improvement Program), and Agency Directive 600-22 (Registration Improvement Plan, FY 2007), provided policy, direction, and resources as an oversight to this mandate.

3. Obtain 86% of all registrations electronically.

Was the goal achieved? No.

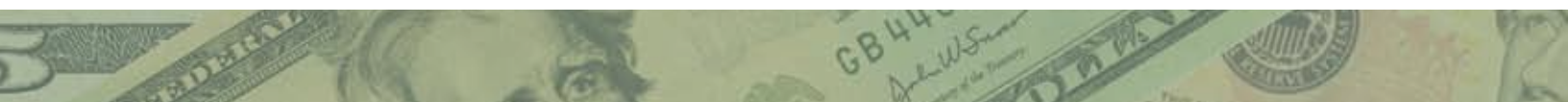
Results: Projected: 86 percent of total - Actual: 83 percent of total.

Discussion: Eighty-three percent of all registrations for FY 2007 were electronic, the same as for FY 2006. Thirty-nine percent, an increase of two percent over last year, were from driver's license registrations and 22 percent, a decrease of one percent from last year, from the Internet (www.sss.gov). Driver's license legislation which has been enacted in 36 states – an increase of three over FY 2006; three territories, and the District of Columbia, links driver's license and state ID cards to compliance with the Federal registration requirement. Driver's license legislation, Internet registration, and data exchanges with various Federal agencies make up a significant portion of electronic registrations. With the suspension of Reminder Card mailings, young men who may have chosen to register via the Internet at www.sss.gov may have been unable to do so; this may have contributed to the FY 2007 goal not being attained.

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

Planned Actions/Schedule: Continue to maintain automated registration programs and push to implement driver's license registration nationally.

Verification and Validation: Statistical report that measure processing timelines and evaluates program results periodically.



Strategic Goal 2: Ensure management excellence.

In concert with the PMA, the SSS implemented technology upgrades of the Agency’s hardware, software, and systems development processes. An overall plan and strategy to ensure alignment and integration among its human capital management process and the financial, operational, information technology, and logistical processes, is underway. Included are an expansion of the Agency’s e-government, budget and performance integration, and improvements in financial performance initiatives

Objective 1: Efficient and effective resource and procurement management.

For FY 2007 the SSS set two performance goals for Objective 1.

- Implementation of the SSS Human Capital Plan.
- Implementation of the Acquisition and Logistics Management Plan.

Performance Measure	Objective	2003	2004	2005	2006	2007	2008
Implementation of the SSS HCMP.	2.1.1	-	-	-	10%	90%	100%
Implementation of the Acquisition and Logistics Management Plan.*	2.1.2	-	-	-	-	10%	NA

* New 1st year goal aligned with the objectives contained in the SSS FY 2006-2011 Strategic Plan.

1. Develop and implement a Human Capital Management Plan.

Was the goal achieved? No.

Results: Projected: 100% - Actual: 90%

Discussion: While not required, SSS committed resources to develop a HCMP. The plan was completed in FY 2007 but not yet published. The basic plan was finalized, however, additional “add on” workload analyses that will provide baseline data on skill gaps and the alignment of talent to jobs still needs to be completed. OPM conducted a Human Capital audit during FY 2007; results and recommendations provided to SSS at the end of FY 2007 will prove helpful in our on-going efforts in the area of human capital development.

Impact: The Agency has existing policies and procedures in place that address many of the issues being developed in the HCMP. However, the need to provide an integrated approach to human capital management has not been realized. Several primary areas of concern included



succession planning, managing talent, and aligning skills with job requirements for the most efficient/effective organization remain incomplete.

Planned Actions/Schedule: Publish and implement the basic HCMP in the second quarter of FY 2008. Complete work on job analysis, skills gaps and talent management during Second Quarter and roll out these implementing pieces of the HCMP. Develop human capital metrics across SSS. Utilize results of the annual Human Capital Survey and the Human Capital Audit to help highlight areas of success and to improve performance throughout the Agency.

Verification and Validation: Statistical reports that measure completion of the plan against the desired content and evaluate programs based upon comparison with other small agencies plans and programs. Additionally, SSS plans to utilize the proposed OPM Human Capital Assessment and Accountability Framework (HCAAF) to evaluate progress and analyze metrics.

2. Develop and implement an Acquisition and Logistics Management Plan.

Was the goal achieved? No.

Results: Projected: 50% - Actual: 10 %

Discussion: Determined that the requirement for an Acquisition and Logistic Management Plan is not applicable to a small agency such as SSS with very limited contractual work.

Impact: The Agency has existing policy and procedures in place.

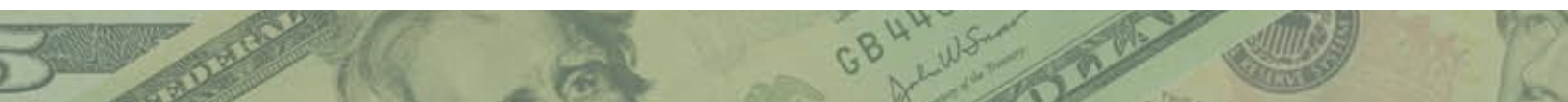
Planned Actions/Schedule: Review and update as necessary all acquisition related publications. Evaluate procurement and logistic process for process improvement.

Verification and Validation: Evaluate procurement and logistic programs/processes based upon comparison with other small agencies plans and programs.

Objective 2: Efficient and effective financial management.

For FY 2007 the SSS set two performance goals for Objective 2.

- Implementation of Financial Management IT Plans.
- Complete Performance and Budget Integration.



Performance Measure	Objective	2003	2004	2005	2006	2007	2008
Implementation of Financial Management IT Plans.*	2.2.1	-	-	-	-	10%	Complete
Complete Performance and Budget Integration.*	2.2.2	-	-	-	-	60%	Complete

* New 1st year goal aligned with the objectives contained in the SSS FY 2006-2011 Strategic Plan.

1. Implementation of Financial Management Plan.

Was the goal achieved: No.

Results: Projected: 50% - Actual: 10 %

Discussion: Initiated the required structure to be used in developing and implementing a sound financial management plan that will serve as the basic cornerstone by which the Financial Management Division will perform its mission and functions for the foreseeable future. This structure will be centered on the revised/updated Fiscal Manual (FM) for the operational functions of the Financial Management Division. The initial draft of the FM was prepared and staffed within the Financial Management Division; however, due to the turnover of personnel, specifically the Accounting Officer, the draft was not completed and has yet to be finalized.

Impact: The Agency continues to operate and function based on the guidelines and rules established in the outdated FM (that has been supplemented with operational directives from time-to-time as the need arises). There continues to be the need for an "overarching" document that establishes guidelines and procedures for the day-to-day operations, which the updated FM will provide. The Financial Management Division continues to operate on a tenuous framework and is experiencing difficulty in establishing sound guidance to the Agency's operational activities as it relates to the procedures to be followed in their day-to-day operations.

Planned Actions/Schedule: The FM will be staffed out for update and comments to be incorporated in the revised/updated version during FY 2008. The priority for this action has been reestablished as an Agency goal to be accomplished immediately.

Verification and Validation: Periodic (annual) review and updates will be performed by the resident Financial Management staff members to ensure that the FM is up-to-date.

2. Complete Performance and Budget Integration.

Was the goal achieved?

No.

Results:

Projected: 75% - Actual: 60%

Discussion:

The Agency's budget and strategic planning documents were aligned for implementation and execution as outlined in the Strategic Plan. Additional plans were established whereby all personnel costs (pay, benefits, etc.) would be accounted in accordance with the Strategic Plan and executed with the planned deployment of an updated and revised Time and Attendance Reporting system (budgeted for procurement and implementation during the FY 2008-2009 timeframe). The revision of the Agency's accounting structure in FY 2008 will delay the completion of the overall plan to align the current year's (FY 2008) funding stream in its entirety. The restructured accounting codes will be revised during the first quarter of FY 2008 and any subsequent actions will be addressed as the Agency progresses through the remainder of the fiscal year.

Impact:

The aforementioned accounting restructure was implemented beginning in FY 2008 and may cause a revision of the current scheme to align the budgetary resources to the Strategic Plan. The current Strategic Plan for the Agency has existing policy and procedures in place that address many of the issues being developed and revised with the new structure. However, to ensure that the budget and performance plan is aligned, the Agency is reviewing its proposed budget and revised accounting structure. The potential for change is a minor concern and should be rectifiable within the next rewrite of the Strategic Plan in accordance with the revised accounting structure.

Planned Actions/Schedule:

The revised accounting structure will be reviewed and compared to the Strategic Plan to ensure that the established Goals and Objectives as outlined are aligned with the requested funding in the Agency's annual budget request. During FY 2008, an updated Time and Attendance Reporting system will be procured and integrated with the OFF System and implemented so that all Agency personnel costs will be recorded in accordance with the budget and Strategic Plan.

Verification and Validation:

The Financial Management Division will review the funding as approved by the Office of Management and Budget to ensure that the reported budget and performance data are aligned as outlined in the most recent and current Strategic Plan for the Agency.

Objective 3: Efficient and effective information technology management.

For FY 2007 the SSS set one performance goal for Objective 3.

- By June 2007 – Design, develop, and implement plan of migration off mainframe.

Performance Measure	Objective	2003	2004	2005	2006	2007	2008
By June 2006 – Develop, test, and Implement Agency COOP/Tele-work environments.*	2.3.1	-	-	-	Completed	-	-
By June 2006 – Complete proof of concept testing and development of migration plans to move off the mainframe at the Data Management Center. *	2.3.1	-	-	-	Completed	-	-
By June 2007 – Design, develop, and implement plan of migration off mainframe. *	2.3.1	-	-	-	-	Develop	Complete
Capital Plan. June 2005 –Completion of Phase 1B of CRPP –Completed design, development and testing of Security Management, Single Sign On and Induction/Exam Orders Management portions of CRPP. Requirements completed for rest of the CRPP system.*	2.3.1	-	-	-	Completed	-	-
June 2006 (tentative) – Completion of Phase 2 of CRPP – Completed design, development and testing of rest of Mobilization Functionality (Registrant Management, Claim/Appeals Processing, Alternative Service Management, Location Management, RFO Management, Board Member Management, etc.) *	2.3.1	-	-	-	Postponed	Postponed	Postponed

* New 1st year goal aligned with the objectives contained in the SSS FY 2006-2011 Strategic Plan.

1. By June 2007 – Design, develop, and implement plan of migration off mainframe.

Was the goal achieved? No.

Results: The contractor originally hired to perform a System Development Life Cycle (SDLC) of the system was replaced with a new contractor in August 2007. As a result acquisition costs will be higher than originally anticipated and the project will not be completed until FY 2009 rather than FY 2008.

Discussion: Due to the requirements/planning phase taking longer than anticipated, this goal will be completed in FY 2009. The contractor hired to perform SDLC of the system was terminated; a new vendor was awarded the contract in August 2007. As a result acquisition costs will be higher than originally anticipated and the project will not be completed until FY 2009.

Impact: This goal will not be completed until FY 2009 and as a result the Agency will continue work on the major modernization effort to migrate its core Registration, Compliance, and Verification information systems from a DoD mainframe to a server-based environment within SSS.

Planned Actions/Schedule: SSS has secured a new vendor to develop a design and to develop and implement a plan of migration off of the mainframe. The contract was awarded in August 2007. The targeted completion date for the implementation of the mainframe migration is FY 2009.

Verification and Validation: Development and completion of all Unit Test, Systems Test, and Parallel Test requirements will be developed by the contracted vendor as part of their SDLC methodology.

Objective 4: Efficient and effective management of Communications with the Public.

For FY 2007 the SSS set two performance goals for Objective 4.

- Distribute quality public service advertising materials to every national media market and obtain public service air time in at least 90% of the major markets and 95% of all media markets.
- Improve the turnaround times, in accordance with provisions of the Agency’s Administrative Services Manual, for all types of responses: White House, congressional, media, registrants, and the general public.

Performance Measure	Objective	2003	2004	2005	2006	2007	2008
Distribute quality public service advertising materials to every national media market and obtain public service air time in at least 90% of the major markets and 95% of all media markets.	2.4.1	-	-	-	-	100%	100%
Improve the turnaround times, in accordance with provisions of the Agency’s Administrative Services Manual, for all types of responses: White House, congressional, media, internal customers, and the general public.***	2.4.2	+13%		39 days	25 days	15 days	8 days
*** Objective 3.1 under the FY 2001 – 2006 is now included under this objective. The information contained in SSS Strategic Plan FY 2003 – 2006 of this chart reflects acknowledgement turnaround times. The information for FY 2007 is aligned with the goals contained in the SSS Strategic Plan FY 2006 – 2011.							

1. Distribute quality public service advertising materials to every national media market and obtain public service air time in at least 90% of the major markets and 95% of all media markets.

Was the goal achieved? Yes.

Results: Projected: 90% Major Markets Actual: 100%
Projected: 95% All Media Markets Actual: 100%

Discussion: This goal was exceeded due to innovative scheduling, staff emphasis, modest funding, and excellent contractor support.

Impact: Acceptable customer service levels.

Planned Actions/ Schedule: Maintain the performance goal.

Verification and Validation: Reports, statistical measures, media feedback, and program evaluations.

2. Improve the turnaround times, in accordance with provisions of the Agency's Administrative Services Manual, for all types of responses: White House, congressional, media, registrants, and the general public.

Was the goal achieved? Yes.

Results: Projected for Acknowledgement Cards: 15 days
Actual: 15 days.

Projected for all other responses: 8 days or less.
Actual: 5 days or less.

Discussion: With innovative scheduling, this goal was achieved for registrant inquiry service levels,

Impact: Acceptable customer service levels.

Planned Actions/Schedule: Maintain or better the performance goal.

Verification and Validation: Statistical reports that measure processing time lines and evaluates program.

Financial Details

Message From the Comptroller

The SSS recognizes the importance of strong financial systems and internal controls to ensure accountability, integrity, and reliability. The Agency is committed to fulfilling the requirements of the Government Performance and Accountability Act, the Government Management and Reform Act, and the Federal Manager's Integrity Act.

SSS daily programs and activities affect America's young men. To facilitate these programs, the Comptroller is entrusted with a certain amount of taxpayer's resources. Strong financial systems and internal controls to ensure accountability, integrity, and reliability remain Agency priorities. Because SSS is keenly aware of the importance of this fiduciary responsibility and remains committed to the performance and accountability mandates put forward by the President and Congress changes have been made recently. However, since implementation of the new accounting system, we continue to struggle to satisfy mandates in financial management. Therefore, I cannot give unqualified assurance of compliance with the Federal Managers' Financial Integrity Act, or the financial systems requirements of the Federal Financial Management Improvement Act.

Nevertheless, I will continue to focus our teams to resolve these deficiencies. As the new Comptroller, appointed on October 15, 2007, I am committed to providing sound management of the resources under my stewardship, and communicating the performance of my programs through this report. Working together with innovative and skilled career employees, we shall take seriously our responsibility for the resources entrusted to us by Congress, and to perform our important work for the American people.



A handwritten signature in black ink that reads "Carlo Verdino". The signature is fluid and cursive, with a long horizontal stroke at the end.

Carlo Verdino
Comptroller

December 17, 2007



Report of Independent Auditors

SELECTIVE SERVICE SYSTEM

Financial Statements

As of and for the Years Ended
September 30, 2007 and 2006

Submitted By

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



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Director, Selective Service System

INDEPENDENT AUDITOR'S REPORT

We were engaged to audit the balance sheets of the Selective Service System (SSS), as of September 30, 2007 and 2006, and the related statements of net cost, changes in net position, and budgetary resources (the financial statements) for the year then ended. These financial statements are the responsibility of the SSS management.

SUMMARY

As discussed in our report, SSS's accounting records were not sufficient to support certain transactions, account balances, and amounts reported in its financial statements. As a result of these problems, coupled with material weaknesses in SSS's internal controls over financial reporting, we were not able to apply other auditing procedures to satisfy ourselves as to the completeness and accuracy of those amounts. Accordingly, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the 2007 and 2006 financial statements.

In connection with our engagement, we also considered the SSS's internal control over financial reporting and tested SSS's compliance with certain provisions of applicable laws and regulations that could have a direct and material effect on its financial statements. Our consideration of internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses under standards issued by the American Institute of Certified Public Accountants. However, we noted three material weaknesses involving SSS's controls over accounting operations, transaction processing, and information technology (IT) security.

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

REPORT ON THE FINANCIAL STATEMENTS

We were engaged to audit the accompanying balance sheets of the SSS, as of September 30, 2007 and 2006, and the related statements of net cost, changes in net position, and budgetary resources for the years then ended.

The material weaknesses identified in SSS’s internal control over financial reporting raised significant concerns about the auditability of SSS’s financial statements. As discussed below, SSS was unable to provide sufficient evidential matter to support certain transactions and account balances presented in SSS’s financial statements.


- SSS made unsupported adjustments of more than \$462,000 to its \$13,685,886 Fund Balance with Treasury to reconcile SSS’s general ledger accounts to Treasury’s records. In addition, SSS did not research and correct material differences between SSS’s and Treasury’s collection and disbursement records, dating to 2005.
- SSS was unable to provide sufficient evidence to support the completeness and accuracy of SSS’s accounts payable, totaling \$1,674,366.
- SSS was unable to provide sufficient evidence to support the completeness and accuracy of its Federal Employee Compensation Act (FECA) Actuarial Liabilities totaling \$3,055,153.
- SSS was unable to provide sufficient evidence to support transactions amounting to more than \$1.75 million relating to SSS’s total Net Position of \$8,989,462.
- SSS did not have sufficient support for certain transactions and account balances related to advances, collections, obligations incurred, and certain line items in the Reconciliation of Net Cost of Operations (proprietary) to Budget.
- As discussed later in this report, the presentation and disclosure of certain financial statement line items amounts did not conform to generally accepted accounting principles.

The table below details the financial statement line items impacted by the problems discussed above.

Financial Statement	Number of Line Items on Statement	Number of Line Items Impacted by Above Problems
Balance Sheet	18	14
Statement of Net Cost	3	2
Statement of Changes in Net Position	14	8
Statement of Budgetary Resources	30	23

In addition, the issues discussed above impacted 10 of the 15 line items in the Reconciliation of Net Cost of Operations (proprietary) to Budget.

In our report dated November 7, 2006, we expressed an opinion that the SSS’s balance sheet as of September 30, 2006, and related statements of net cost, changes in net position, budgetary resources and financing for the year then ended were fairly stated in all material respects, except for the effects of adjustments, if any, that might have been necessary had we been able to examine evidence to



support adjustments, amounting to approximately \$524,000, in total, made to: (1) Gross Outlays, Unpaid Obligations, Total Unpaid Obligated Balance, Net, End of Period, and Net Outlay in the Statement of Budgetary Resources; (2) Footnote 2, Fund Balance with Treasury; and (3) Other Adjustments in the Statement of Financing. The problems noted during our testing of 2007 accounts disclosed that additional material misstatements affecting the 2006 statements may have existed, but were not known as of the date of our previously issued report. The specific amounts and related effects of such misstatements continue to be unknown. However, in addition to the qualifications expressed in the previous report, material weaknesses in internal controls, and unsupported transactions in Net Position accounts may have materially affected Net Position and other financial statement line items as of September 30, 2006. Accordingly, our report dated November 7, 2006, is withdrawn and replaced by this report.

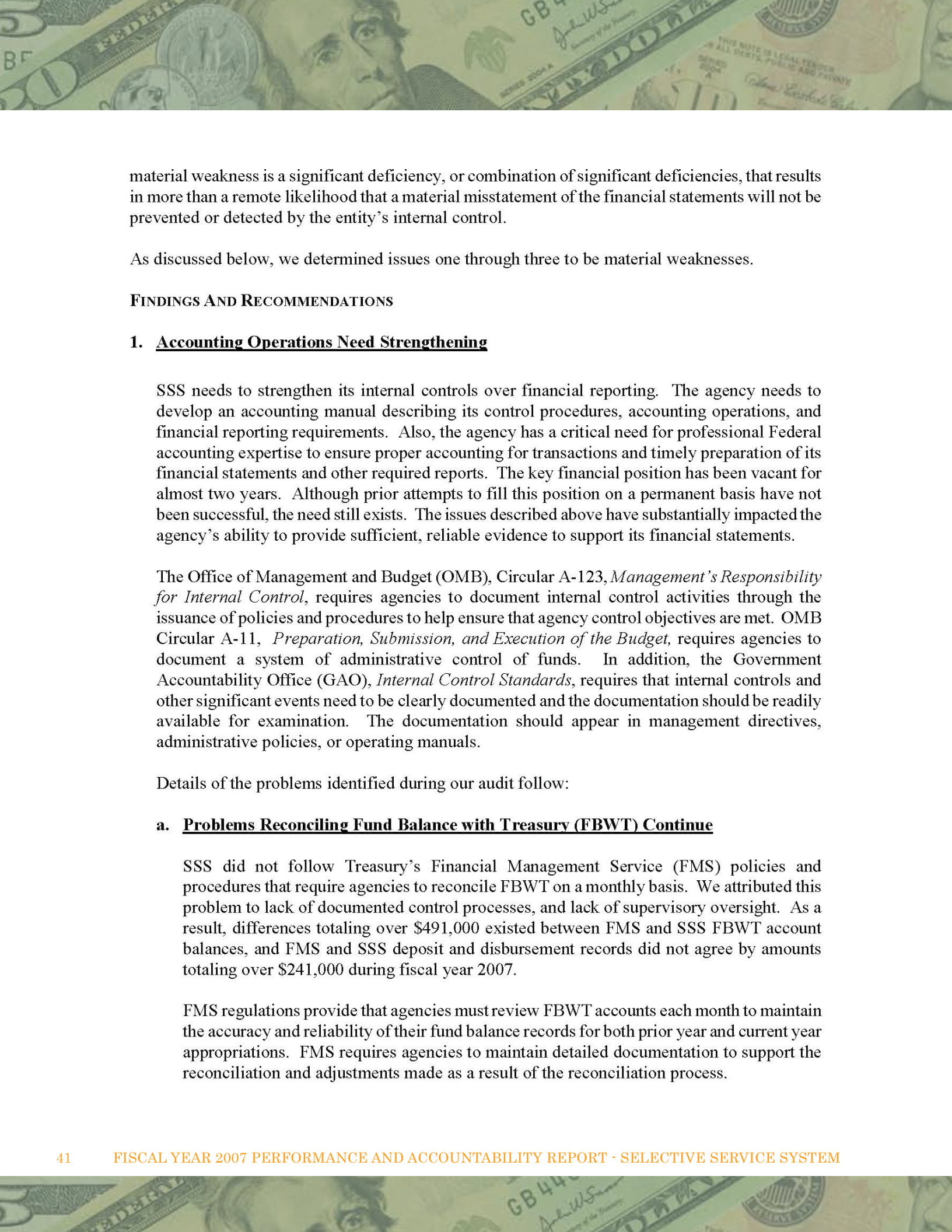
Since the accounting records were not sufficient to support amounts reported in the financial statements, it was impractical to extend our procedures to determine the extent, if any, to which SSS financial statements may have been affected by the matters discussed in the preceding paragraphs. Accordingly, we were not able to apply other auditing procedures to satisfy ourselves as to the completeness and accuracy of financial statement amounts, and the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on SSS's balance sheets as of September 30, 2007 and 2006, and the related statements of net cost, changes in net position, and budgetary resources for the years then ended.

The information in the Management's Discussion and Analysis (MD&A) section of the agency's Performance and Accountability Report is not a required part of the financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America, and OMB Circular A-136, *Financial Reporting Requirements*. We were unable to complete procedures over the MD&A, as prescribed by professional standards, because of the limitations on the scope of our audit as described in the previous sections of this report. Certain information in the MD&A is based upon 2007 financial statements on which we have not expressed an opinion. We did not audit the MD&A and, accordingly, we express no opinion on it.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Our consideration of the SSS's internal control over financial reporting was for the limited purpose described in the Responsibilities section of this report, and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses.

Because of inherent limitations in internal controls, including the possibility of management override of controls, misstatements, losses, or noncompliance may nevertheless occur and not be detected. A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is a more than remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. A



material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

As discussed below, we determined issues one through three to be material weaknesses.

FINDINGS AND RECOMMENDATIONS

1. Accounting Operations Need Strengthening

SSS needs to strengthen its internal controls over financial reporting. The agency needs to develop an accounting manual describing its control procedures, accounting operations, and financial reporting requirements. Also, the agency has a critical need for professional Federal accounting expertise to ensure proper accounting for transactions and timely preparation of its financial statements and other required reports. The key financial position has been vacant for almost two years. Although prior attempts to fill this position on a permanent basis have not been successful, the need still exists. The issues described above have substantially impacted the agency's ability to provide sufficient, reliable evidence to support its financial statements.


The Office of Management and Budget (OMB), Circular A-123, *Management's Responsibility for Internal Control*, requires agencies to document internal control activities through the issuance of policies and procedures to help ensure that agency control objectives are met. OMB Circular A-11, *Preparation, Submission, and Execution of the Budget*, requires agencies to document a system of administrative control of funds. In addition, the Government Accountability Office (GAO), *Internal Control Standards*, requires that internal controls and other significant events need to be clearly documented and the documentation should be readily available for examination. The documentation should appear in management directives, administrative policies, or operating manuals.

Details of the problems identified during our audit follow:

a. Problems Reconciling Fund Balance with Treasury (FBWT) Continue

SSS did not follow Treasury's Financial Management Service (FMS) policies and procedures that require agencies to reconcile FBWT on a monthly basis. We attributed this problem to lack of documented control processes, and lack of supervisory oversight. As a result, differences totaling over \$491,000 existed between FMS and SSS FBWT account balances, and FMS and SSS deposit and disbursement records did not agree by amounts totaling over \$241,000 during fiscal year 2007.

FMS regulations provide that agencies must review FBWT accounts each month to maintain the accuracy and reliability of their fund balance records for both prior year and current year appropriations. FMS requires agencies to maintain detailed documentation to support the reconciliation and adjustments made as a result of the reconciliation process.



We reported similar problems with SSS controls over financial reporting as they relate to FBWT controls in our 2006 audit of SSS's financial statements. While SSS agreed to correct the material weaknesses in this area, problems continued throughout 2007. SSS personnel did develop draft procedures addressing a FBWT reconciliation process; however, the procedures were never finalized and were not always followed.

We performed tests of the SSS FBWT reconciliation process, and noted that large differences between FMS and SSS deposit and disbursement amounts existed, with some differences dating back to 2005. We were unable to obtain supporting documentation to show the actions taken on the differences in fiscal year 2006, which totaled almost \$440,000.

b. Journal Vouchers Not Properly Supported

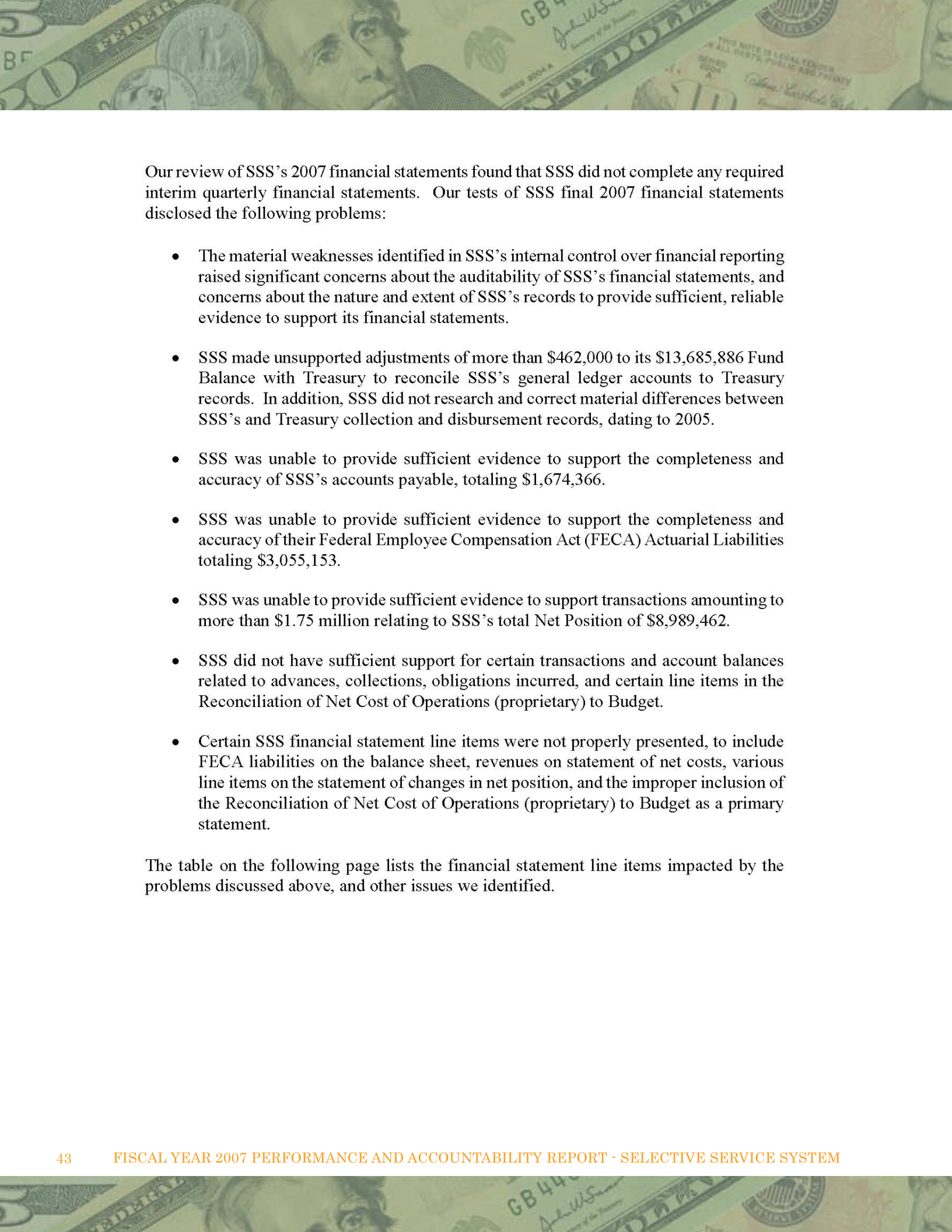
Control weaknesses relating to journal vouchers (JV) processed to SSS's general ledger, reported as a material weakness in our 2006 report, continued to have a significant impact on SSS's ability to provide necessary support for certain adjustments made to, and transactions processed to its general ledger during 2007. We attributed this problem, primarily, to the lack of documented controls and operational processes, and lack of supervisory reviews over this critical financial management process. As a result, we identified JVs that were processed to force reconciliations of general ledger account balances, JVs unsupported by documentation, and JVs that contained errors.

During our 2007 audit, we performed tests to determine if the JVs were properly supported, the accounts and amounts posted to the general ledger were correct, and if the JVs were reviewed and approved by a supervisor prior to processing the entries to the general ledger. For the JVs processed during fiscal year 2007 through September 30, we were not able to obtain sufficient documentation to support any of the JVs that we selected for testing. For the JVs prepared from September 30 through November 15, 2007, we identified that 11 of the 35 JVs prepared either recorded unsupported adjustments, or did not contain sufficient documentation to justify the adjustment to the general ledger.

c. Preparation of Interim and Final Financial Statements

SSS's financial statements were not prepared in accordance with OMB Circular A-136 and Federal Accounting Standards Advisory Board (FASAB) Standards. We attributed this problem to the turnover of key staff members within financial management operations. As a result, SSS did not prepare interim financial statements as required by OMB Circular A-136, and was not able to provide sufficient reliable evidential matter to support certain transactions, account balances, and related financial statement line items, as discussed in other sections of this report.

OMB Circular A-136 requires agencies to prepare quarterly interim financial statements, and year-end financial statements and footnotes. The Circular also provides the presentation requirements for the statements and footnotes. In addition, *Statements of Federal Financial Accounting Concepts and Standards* provide generally accepted accounting standards for the Federal government.



Our review of SSS's 2007 financial statements found that SSS did not complete any required interim quarterly financial statements. Our tests of SSS final 2007 financial statements disclosed the following problems:

- The material weaknesses identified in SSS's internal control over financial reporting raised significant concerns about the auditability of SSS's financial statements, and concerns about the nature and extent of SSS's records to provide sufficient, reliable evidence to support its financial statements.
- SSS made unsupported adjustments of more than \$462,000 to its \$13,685,886 Fund Balance with Treasury to reconcile SSS's general ledger accounts to Treasury records. In addition, SSS did not research and correct material differences between SSS's and Treasury collection and disbursement records, dating to 2005.
- SSS was unable to provide sufficient evidence to support the completeness and accuracy of SSS's accounts payable, totaling \$1,674,366.
- SSS was unable to provide sufficient evidence to support the completeness and accuracy of their Federal Employee Compensation Act (FECA) Actuarial Liabilities totaling \$3,055,153.
- SSS was unable to provide sufficient evidence to support transactions amounting to more than \$1.75 million relating to SSS's total Net Position of \$8,989,462.
- SSS did not have sufficient support for certain transactions and account balances related to advances, collections, obligations incurred, and certain line items in the Reconciliation of Net Cost of Operations (proprietary) to Budget.
- Certain SSS financial statement line items were not properly presented, to include FECA liabilities on the balance sheet, revenues on statement of net costs, various line items on the statement of changes in net position, and the improper inclusion of the Reconciliation of Net Cost of Operations (proprietary) to Budget as a primary statement.

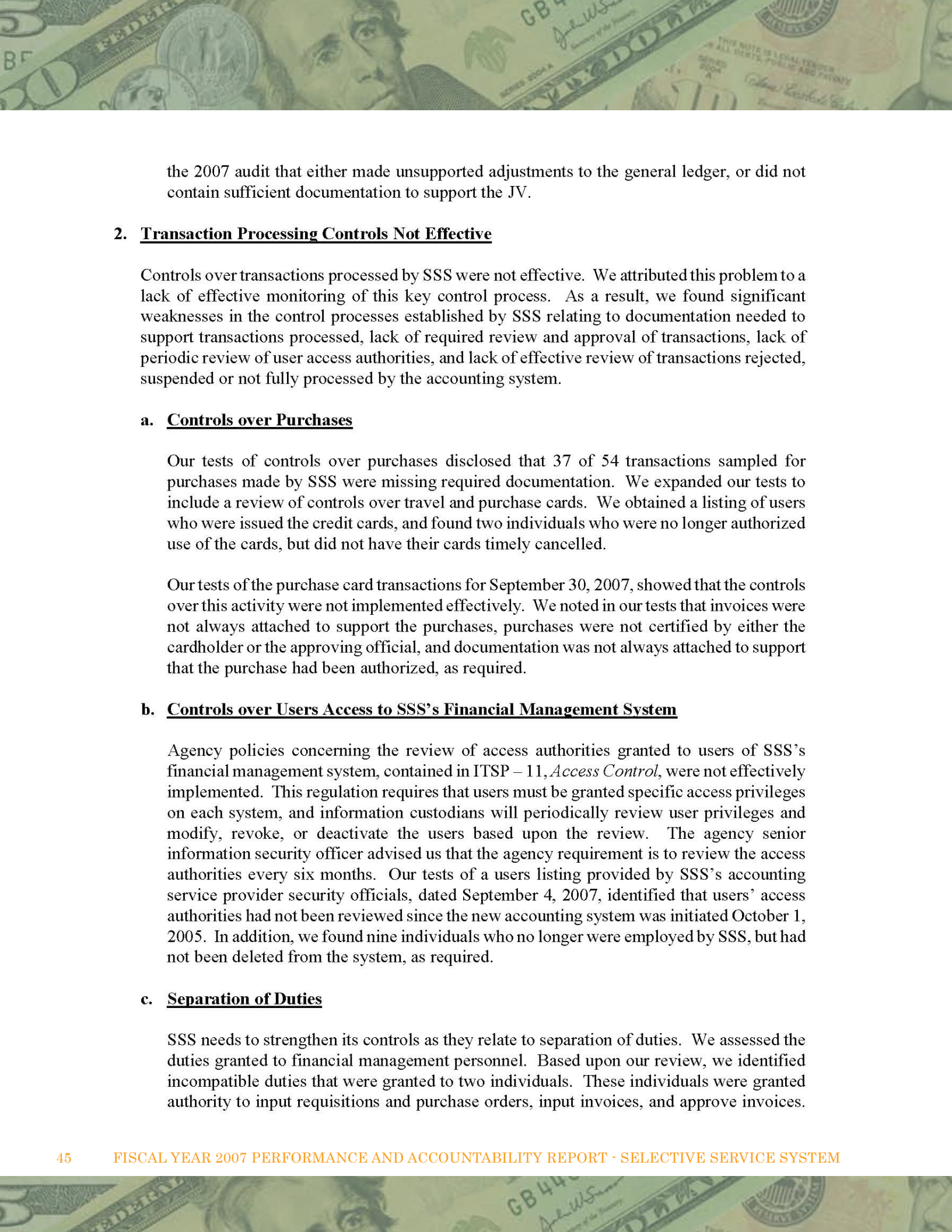
The table on the following page lists the financial statement line items impacted by the problems discussed above, and other issues we identified.

Financial Statement	Number of Line Items on Statement	Number of Line Items Impacted
Balance Sheet	18	14
Statement of Net Cost	3	2
Statement of Changes in Net Position	14	8
Statement of Budgetary Resources	30	23
Reconciliation of Net Cost of Operations (proprietary) to Budget	15	10

We analyzed the problems reported in our 2007 and 2006 financial statement audits relating to SSS's internal controls over financial reporting, and have concluded that SSS has a critical need to obtain professional Federal accounting expertise to ensure it is able to properly account for and report on its financial operations. While SSS took action to obtain this expertise during 2007, this key financial management position is again vacant, and has remained unfilled for most of the last two years. In addition, the failure of SSS to have documented its control and operational processes compounded the impact of this vacancy on SSS financial management operations. Until actions are taken to address the weaknesses identified above, SSS will continue to experience problems in meeting its financial management responsibilities.

Recommendations

1. Establish a project team, with a full-time project leader, to develop and implement a time-phased corrective action plan to address the internal control weaknesses identified in this report. Assure staff and resources are devoted to this long-standing problem.
2. Fill the vacant supervisory accounting position with an individual knowledgeable of Federal accounting standards and policies.
3. Provide sufficient training to financial management staff to enable them to obtain the knowledge and skills to perform SSS financial management activities, including sufficient skills relating to the Oracle financial system.
4. Document SSS internal control processes over financial reporting and funds control, and develop operating policies to provide guidance to agency personnel on all agency financial management operations. Assure that detailed controls and operational processes, as discussed in FMS guidance, are implemented to require monthly reconciliation of the differences reported on the FMS Statement of Differences, and that sufficient detailed supporting documentation is maintained of this reconciliation process.
5. Ensure that JVs are properly supported, reviewed and approved by a supervisor prior to being recorded in the accounting system. Research and correct those JVs identified during



the 2007 audit that either made unsupported adjustments to the general ledger, or did not contain sufficient documentation to support the JV.

2. Transaction Processing Controls Not Effective

Controls over transactions processed by SSS were not effective. We attributed this problem to a lack of effective monitoring of this key control process. As a result, we found significant weaknesses in the control processes established by SSS relating to documentation needed to support transactions processed, lack of required review and approval of transactions, lack of periodic review of user access authorities, and lack of effective review of transactions rejected, suspended or not fully processed by the accounting system.

a. Controls over Purchases

Our tests of controls over purchases disclosed that 37 of 54 transactions sampled for purchases made by SSS were missing required documentation. We expanded our tests to include a review of controls over travel and purchase cards. We obtained a listing of users who were issued the credit cards, and found two individuals who were no longer authorized use of the cards, but did not have their cards timely cancelled.

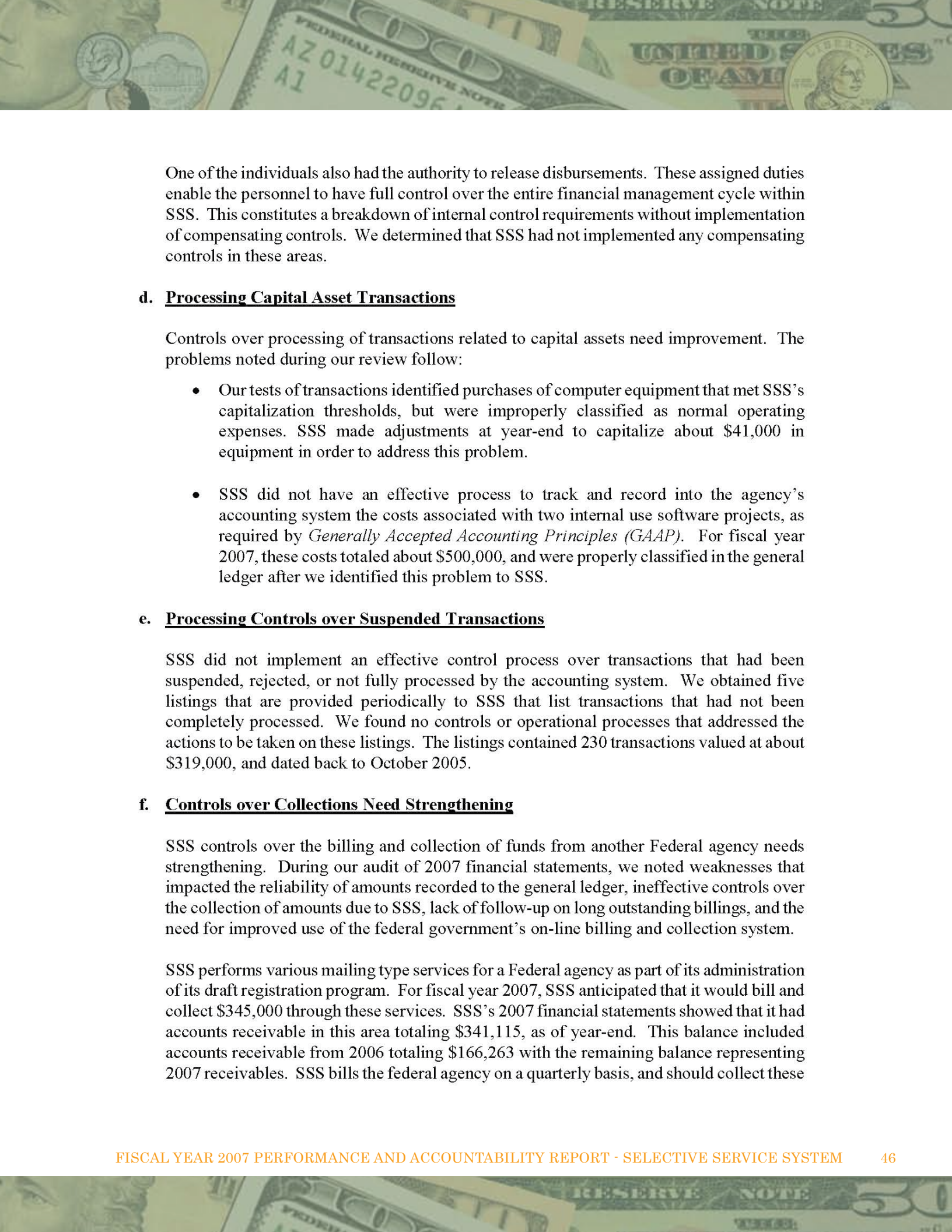
Our tests of the purchase card transactions for September 30, 2007, showed that the controls over this activity were not implemented effectively. We noted in our tests that invoices were not always attached to support the purchases, purchases were not certified by either the cardholder or the approving official, and documentation was not always attached to support that the purchase had been authorized, as required.

b. Controls over Users Access to SSS's Financial Management System

Agency policies concerning the review of access authorities granted to users of SSS's financial management system, contained in ITSP – 11, *Access Control*, were not effectively implemented. This regulation requires that users must be granted specific access privileges on each system, and information custodians will periodically review user privileges and modify, revoke, or deactivate the users based upon the review. The agency senior information security officer advised us that the agency requirement is to review the access authorities every six months. Our tests of a users listing provided by SSS's accounting service provider security officials, dated September 4, 2007, identified that users' access authorities had not been reviewed since the new accounting system was initiated October 1, 2005. In addition, we found nine individuals who no longer were employed by SSS, but had not been deleted from the system, as required.

c. Separation of Duties

SSS needs to strengthen its controls as they relate to separation of duties. We assessed the duties granted to financial management personnel. Based upon our review, we identified incompatible duties that were granted to two individuals. These individuals were granted authority to input requisitions and purchase orders, input invoices, and approve invoices.



One of the individuals also had the authority to release disbursements. These assigned duties enable the personnel to have full control over the entire financial management cycle within SSS. This constitutes a breakdown of internal control requirements without implementation of compensating controls. We determined that SSS had not implemented any compensating controls in these areas.

d. Processing Capital Asset Transactions

Controls over processing of transactions related to capital assets need improvement. The problems noted during our review follow:

- Our tests of transactions identified purchases of computer equipment that met SSS's capitalization thresholds, but were improperly classified as normal operating expenses. SSS made adjustments at year-end to capitalize about \$41,000 in equipment in order to address this problem.
- SSS did not have an effective process to track and record into the agency's accounting system the costs associated with two internal use software projects, as required by *Generally Accepted Accounting Principles (GAAP)*. For fiscal year 2007, these costs totaled about \$500,000, and were properly classified in the general ledger after we identified this problem to SSS.

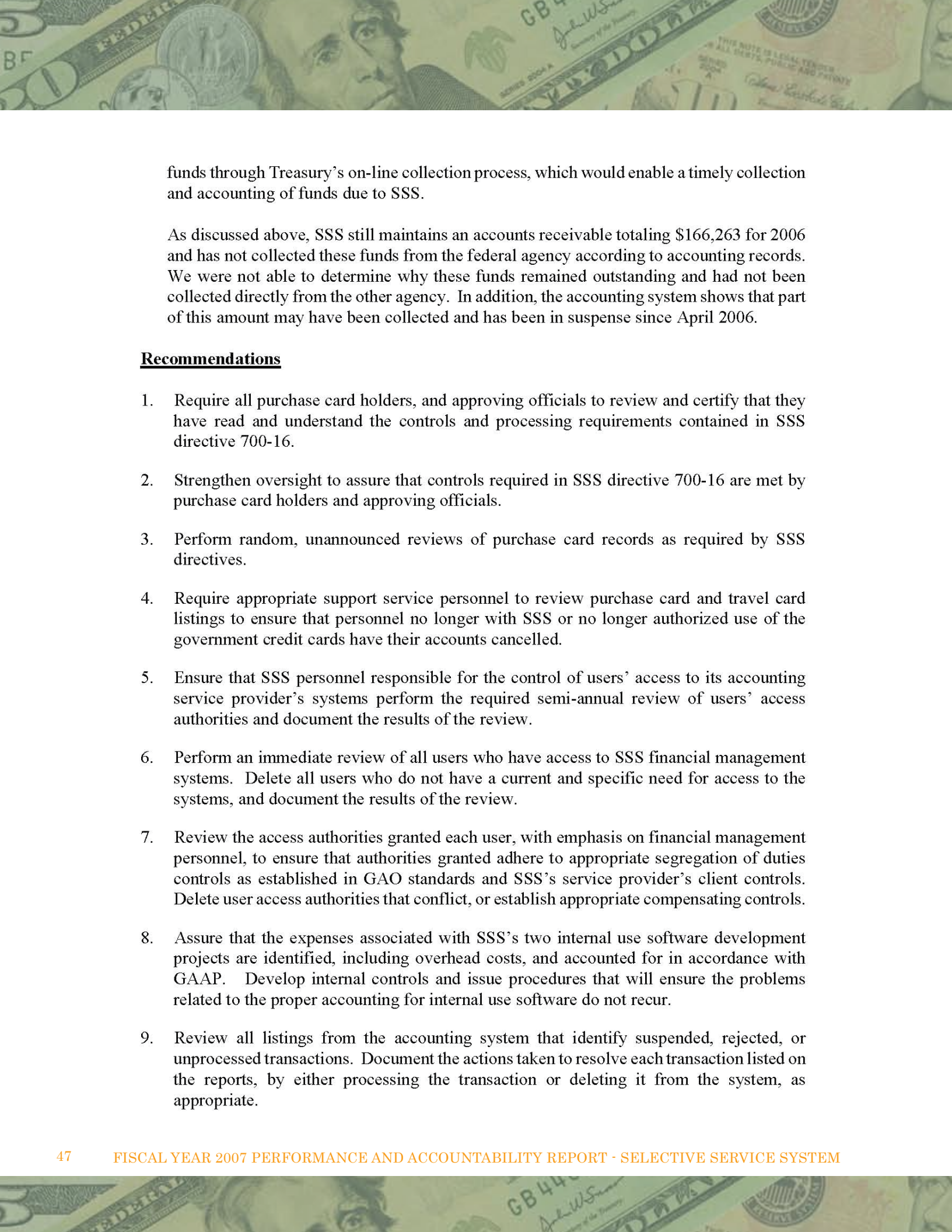
e. Processing Controls over Suspended Transactions

SSS did not implement an effective control process over transactions that had been suspended, rejected, or not fully processed by the accounting system. We obtained five listings that are provided periodically to SSS that list transactions that had not been completely processed. We found no controls or operational processes that addressed the actions to be taken on these listings. The listings contained 230 transactions valued at about \$319,000, and dated back to October 2005.

f. Controls over Collections Need Strengthening

SSS controls over the billing and collection of funds from another Federal agency needs strengthening. During our audit of 2007 financial statements, we noted weaknesses that impacted the reliability of amounts recorded to the general ledger, ineffective controls over the collection of amounts due to SSS, lack of follow-up on long outstanding billings, and the need for improved use of the federal government's on-line billing and collection system.

SSS performs various mailing type services for a Federal agency as part of its administration of its draft registration program. For fiscal year 2007, SSS anticipated that it would bill and collect \$345,000 through these services. SSS's 2007 financial statements showed that it had accounts receivable in this area totaling \$341,115, as of year-end. This balance included accounts receivable from 2006 totaling \$166,263 with the remaining balance representing 2007 receivables. SSS bills the federal agency on a quarterly basis, and should collect these

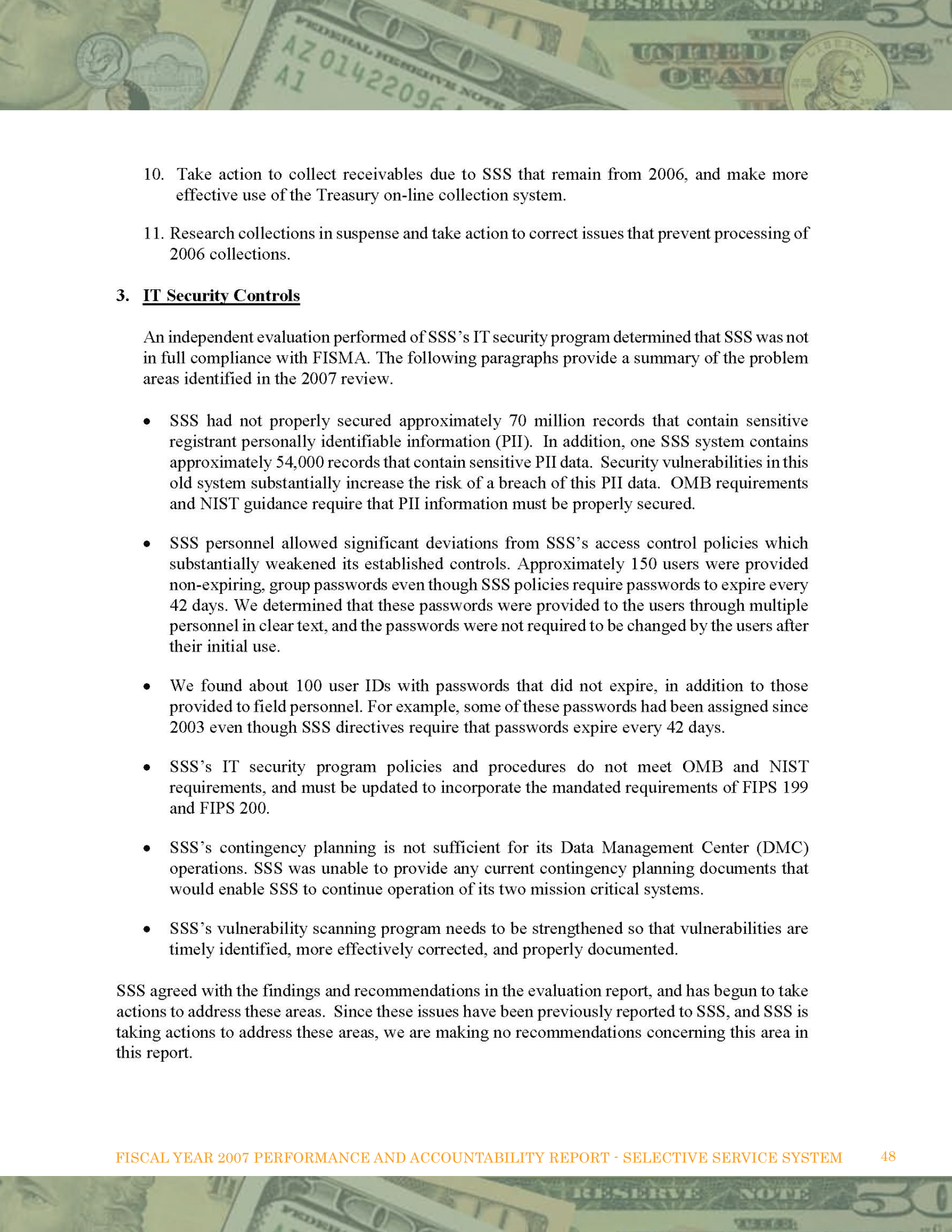


funds through Treasury's on-line collection process, which would enable a timely collection and accounting of funds due to SSS.

As discussed above, SSS still maintains an accounts receivable totaling \$166,263 for 2006 and has not collected these funds from the federal agency according to accounting records. We were not able to determine why these funds remained outstanding and had not been collected directly from the other agency. In addition, the accounting system shows that part of this amount may have been collected and has been in suspense since April 2006.

Recommendations

1. Require all purchase card holders, and approving officials to review and certify that they have read and understand the controls and processing requirements contained in SSS directive 700-16.
2. Strengthen oversight to assure that controls required in SSS directive 700-16 are met by purchase card holders and approving officials.
3. Perform random, unannounced reviews of purchase card records as required by SSS directives.
4. Require appropriate support service personnel to review purchase card and travel card listings to ensure that personnel no longer with SSS or no longer authorized use of the government credit cards have their accounts cancelled.
5. Ensure that SSS personnel responsible for the control of users' access to its accounting service provider's systems perform the required semi-annual review of users' access authorities and document the results of the review.
6. Perform an immediate review of all users who have access to SSS financial management systems. Delete all users who do not have a current and specific need for access to the systems, and document the results of the review.
7. Review the access authorities granted each user, with emphasis on financial management personnel, to ensure that authorities granted adhere to appropriate segregation of duties controls as established in GAO standards and SSS's service provider's client controls. Delete user access authorities that conflict, or establish appropriate compensating controls.
8. Assure that the expenses associated with SSS's two internal use software development projects are identified, including overhead costs, and accounted for in accordance with GAAP. Develop internal controls and issue procedures that will ensure the problems related to the proper accounting for internal use software do not recur.
9. Review all listings from the accounting system that identify suspended, rejected, or unprocessed transactions. Document the actions taken to resolve each transaction listed on the reports, by either processing the transaction or deleting it from the system, as appropriate.

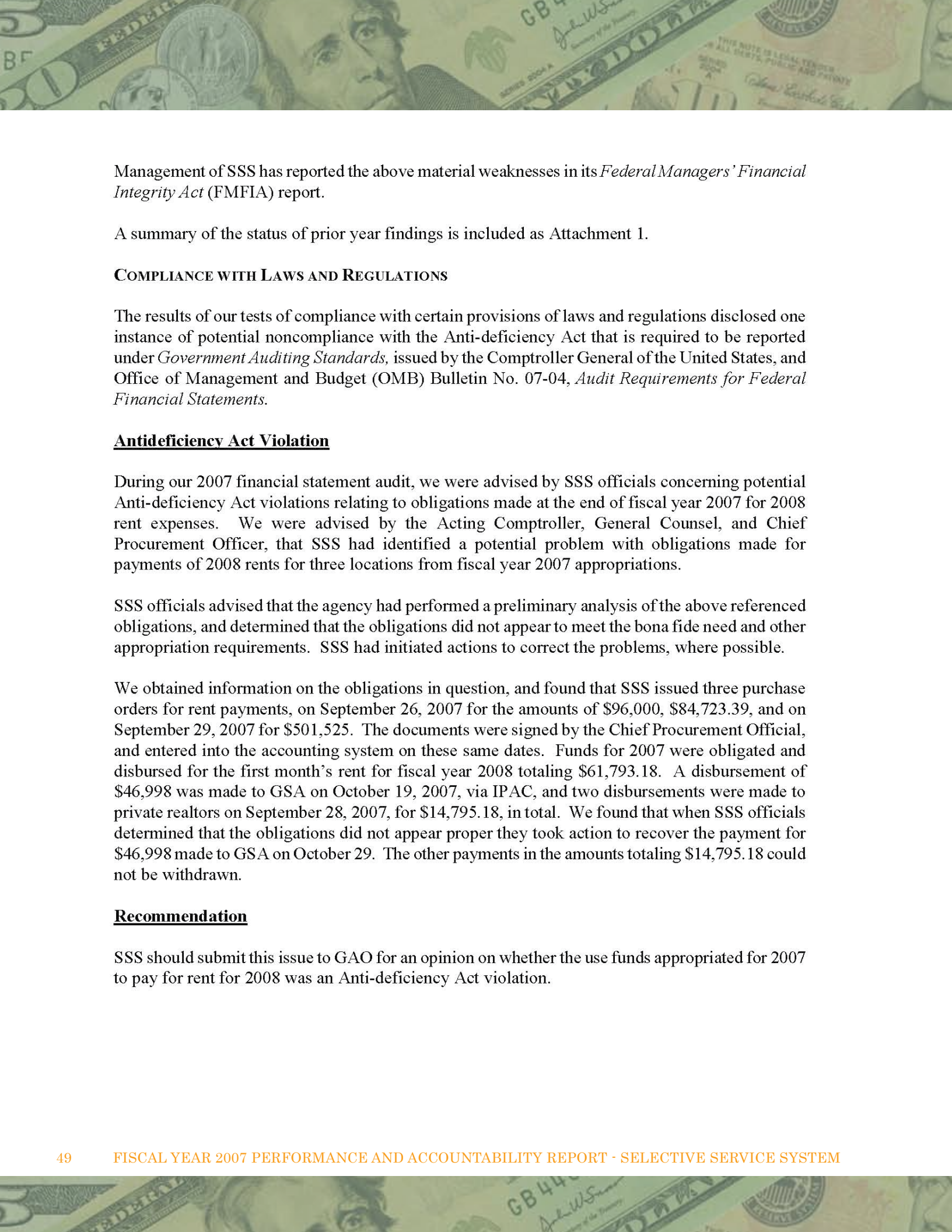
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10. Take action to collect receivables due to SSS that remain from 2006, and make more effective use of the Treasury on-line collection system.
 11. Research collections in suspense and take action to correct issues that prevent processing of 2006 collections.

3. IT Security Controls

An independent evaluation performed of SSS's IT security program determined that SSS was not in full compliance with FISMA. The following paragraphs provide a summary of the problem areas identified in the 2007 review.

- SSS had not properly secured approximately 70 million records that contain sensitive registrant personally identifiable information (PII). In addition, one SSS system contains approximately 54,000 records that contain sensitive PII data. Security vulnerabilities in this old system substantially increase the risk of a breach of this PII data. OMB requirements and NIST guidance require that PII information must be properly secured.
- SSS personnel allowed significant deviations from SSS's access control policies which substantially weakened its established controls. Approximately 150 users were provided non-expiring, group passwords even though SSS policies require passwords to expire every 42 days. We determined that these passwords were provided to the users through multiple personnel in clear text, and the passwords were not required to be changed by the users after their initial use.
- We found about 100 user IDs with passwords that did not expire, in addition to those provided to field personnel. For example, some of these passwords had been assigned since 2003 even though SSS directives require that passwords expire every 42 days.
- SSS's IT security program policies and procedures do not meet OMB and NIST requirements, and must be updated to incorporate the mandated requirements of FIPS 199 and FIPS 200.
- SSS's contingency planning is not sufficient for its Data Management Center (DMC) operations. SSS was unable to provide any current contingency planning documents that would enable SSS to continue operation of its two mission critical systems.
- SSS's vulnerability scanning program needs to be strengthened so that vulnerabilities are timely identified, more effectively corrected, and properly documented.

SSS agreed with the findings and recommendations in the evaluation report, and has begun to take actions to address these areas. Since these issues have been previously reported to SSS, and SSS is taking actions to address these areas, we are making no recommendations concerning this area in this report.



Management of SSS has reported the above material weaknesses in its *Federal Managers' Financial Integrity Act* (FMFIA) report.

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

COMPLIANCE WITH LAWS AND REGULATIONS

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

Antideficiency Act Violation

During our 2007 financial statement audit, we were advised by SSS officials concerning potential Anti-deficiency Act violations relating to obligations made at the end of fiscal year 2007 for 2008 rent expenses. We were advised by the Acting Comptroller, General Counsel, and Chief Procurement Officer, that SSS had identified a potential problem with obligations made for payments of 2008 rents for three locations from fiscal year 2007 appropriations.

SSS officials advised that the agency had performed a preliminary analysis of the above referenced obligations, and determined that the obligations did not appear to meet the bona fide need and other appropriation requirements. SSS had initiated actions to correct the problems, where possible.

We obtained information on the obligations in question, and found that SSS issued three purchase orders for rent payments, on September 26, 2007 for the amounts of \$96,000, \$84,723.39, and on September 29, 2007 for \$501,525. The documents were signed by the Chief Procurement Official, and entered into the accounting system on these same dates. Funds for 2007 were obligated and disbursed for the first month's rent for fiscal year 2008 totaling \$61,793.18. A disbursement of \$46,998 was made to GSA on October 19, 2007, via IPAC, and two disbursements were made to private realtors on September 28, 2007, for \$14,795.18, in total. We found that when SSS officials determined that the obligations did not appear proper they took action to recover the payment for \$46,998 made to GSA on October 29. The other payments in the amounts totaling \$14,795.18 could not be withdrawn.

Recommendation

SSS should submit this issue to GAO for an opinion on whether the use funds appropriated for 2007 to pay for rent for 2008 was an Anti-deficiency Act violation.



RESPONSIBILITIES

Management Responsibilities

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

Auditor Responsibilities

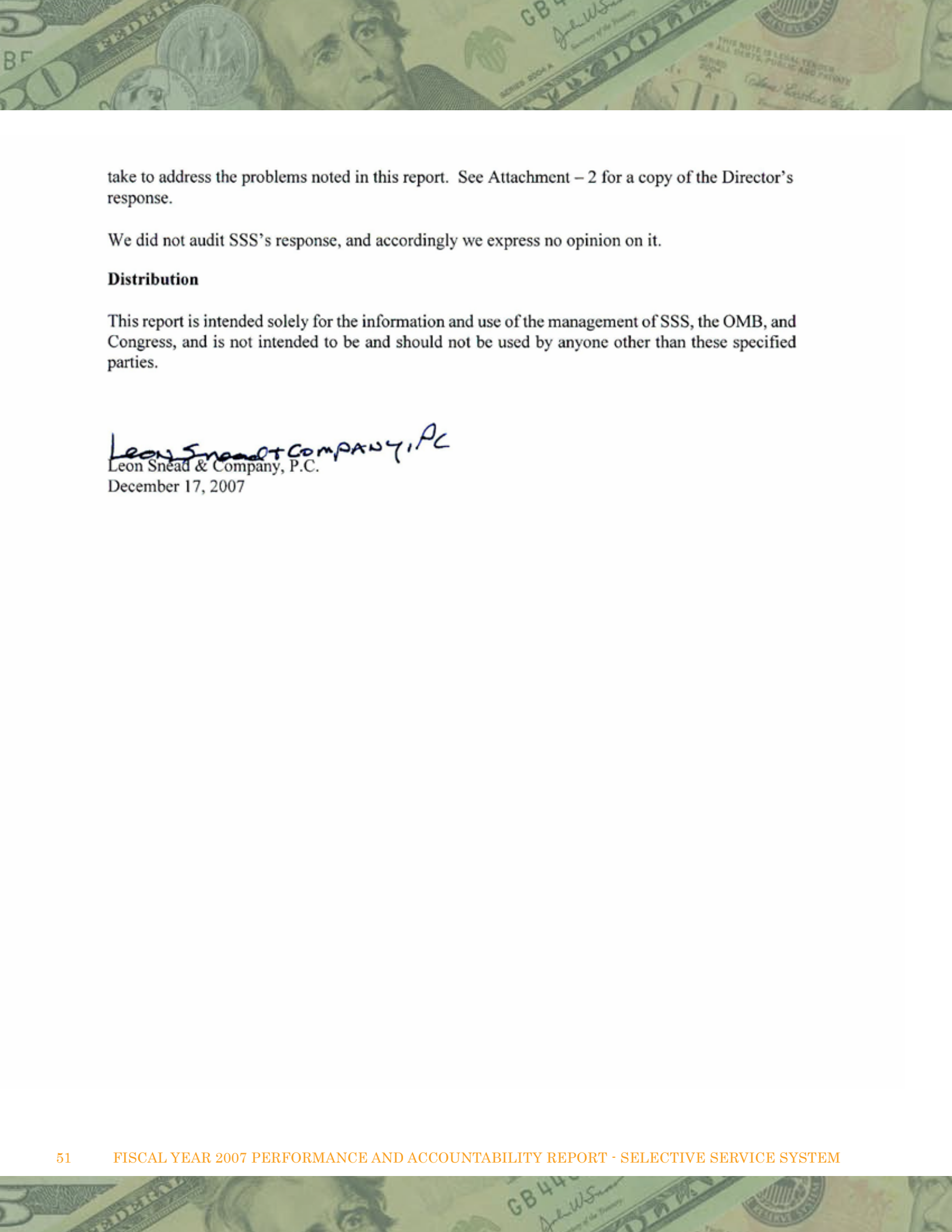
As discussed in the report on the financial statements section of this report, the scope of our work was not sufficient to enable us to express, and we did not express, an opinion on the SSS balance sheet as of September 30, 2007 and 2006, and the related statements of net cost, changes in net position, and budgetary resources for the years then ended.

In connection with our fiscal year 2007 engagement, we considered SSS internal control over financial reporting by obtaining an understanding of SSS's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls in order to determine our procedures. We limited our internal control testing to those controls necessary to achieve the objectives described in *Government Auditing Standards* and OMB Bulletin 07-04. We did not test all internal controls relevant to operating objectives as broadly defined by FMFIA. The objective of our audit was not to provide assurance on internal control over financial reporting. Consequently, we do not express an opinion, thereon. Further, other matters involving internal control over financial reporting may have been identified and reported had we been able to perform all procedures necessary to express an opinion on the SSS financial statements.

In connection with our fiscal year 2007 engagement, we performed tests of SSS's compliance with certain provisions of laws, regulations, and significant provisions of contracts, which could have a direct and material effect on the determination of financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws and regulations applicable to the SSS. However, 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 addition, other matters involving compliance with laws and regulations, contracts may have identified and reported had we been able to perform all procedures necessary to express an opinion on the SSS financial statements.

Agency Response and Auditor Comments

The Director provided a written response to the report on December 17, 2007. The Director agreed with the findings and recommendations and provided specific actions the agency plans to take to address the problems noted in this report. See Attachment – 2 for a copy of the Director's response.



take to address the problems noted in this report. See Attachment – 2 for a copy of the Director’s response.

We did not audit SSS’s response, and accordingly we express no opinion on it.

Distribution

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

Leon Snead & Company, P.C.
Leon Snead & Company, P.C.
December 17, 2007



Attachment 1

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

Prior Year Condition	As Reported At September 30, 2006	Status As Of September 30, 2007
Accounting Operations Need Strengthening	Material Weakness: SSS needs to strengthen its internal controls over financial reporting, and document the control procedures and related financial management operational processes in the agency's accounting policy manual.	Material Weakness: SSS did not implement sufficient corrective actions to address any of the audit recommendations.



THE DIRECTOR OF SELECTIVE SERVICE
Arlington, Virginia 22209-2425

December 17, 2007

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

Dear Mr. Snead:

In response to your letter dated December 17, 2007, I am enclosing the Selective Service System's responses to the Draft Audit Report for FY 2007. If you have any questions, please contact either Mr. Ed Blackadar, Associate Director for Support Services, at 703-605-4081 or edblackadar@sss.gov or Mr. Steve Greenspan, Budget Officer, at 703-605-4099 or sgreenspan@sss.gov.

Sincerely,

A handwritten signature in blue ink that reads "William A. Chatfield".

William A. Chatfield

Enclosure



SELECTIVE SERVICE SYSTEM

Responses to Draft FY07 Audit Report

The Selective Service System acknowledges and accepts the findings and audit results submitted by Leon Snead & Company, P.C, independent auditors for the fiscal year ending September 30, 2007.

The Agency acknowledges that the lack of qualified accountants on the staff, in particular the Accounting Officer, problems with automated systems, and the lack of adequate controls contributed to the difficulties encountered with this year's financial audit.

The Agency also acknowledges that based on this lack of accounting expertise the shared service provider, the Department of the Interior's National Business Center, was required to create and submit the Agency's 2007 Financial Statements for analysis. The Agency forwarded the financial statements to the Auditors as representative of "Agency action."

SUMMARY OF AUDITOR'S FINDINGS

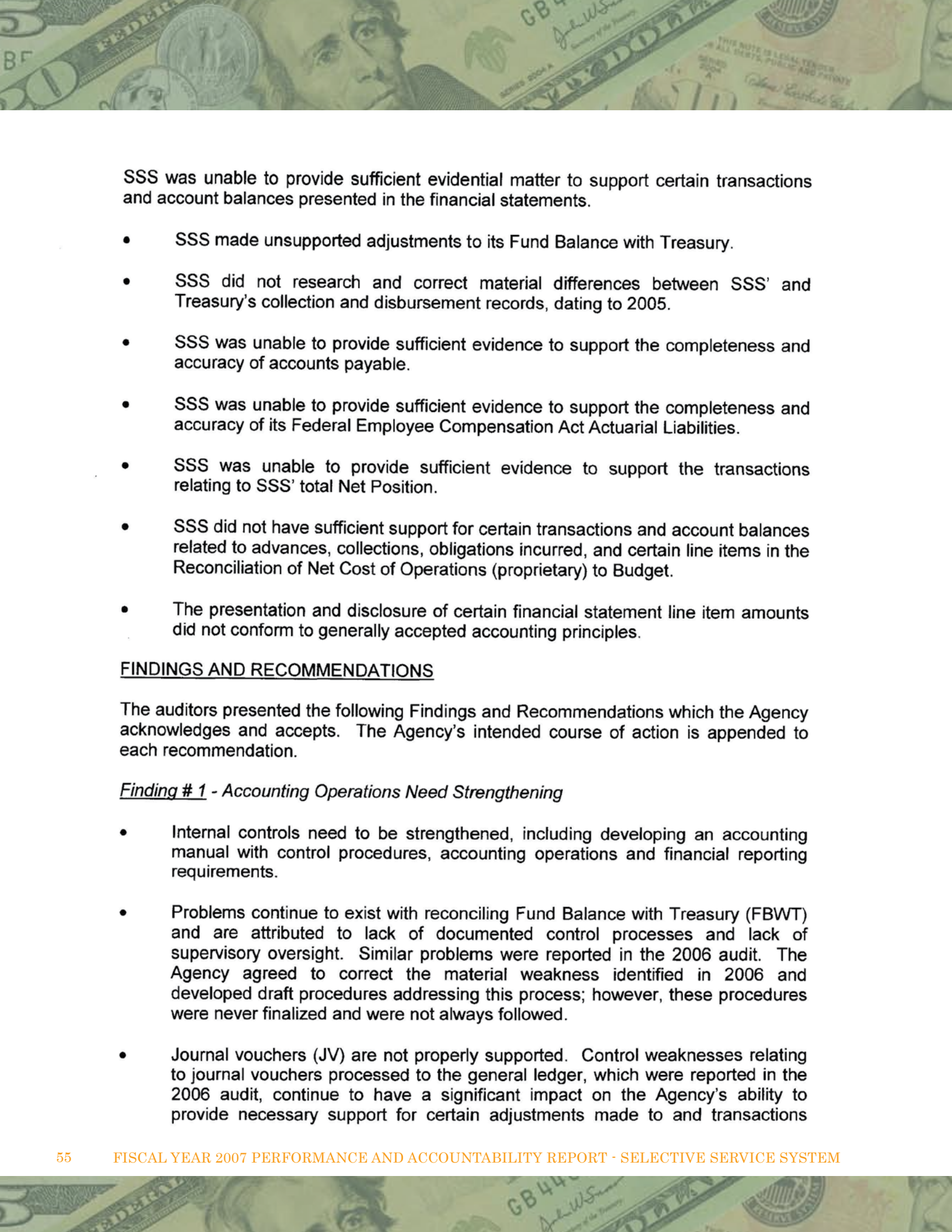
The audit found that the Agency's accounting records are insufficient to support certain transactions, account balances, and amounts reported in its financial statements. As a result of these problems, coupled with material weaknesses in SSS' internal controls over financial reporting, the auditors were not able to apply other auditing procedures to satisfy themselves as to the completeness and accuracy of those amounts.

Accordingly, the auditor's scope of work was not sufficient to express an opinion on the 2007 financial statements, the Agency's balance sheets, and related statements of net cost, changes in net position and budgetary resources.

The auditors have indicated that the problems noted during their testing of 2007 accounts disclosed that additional material misstatements affecting the 2006 statements may have existed, but were not known as of the date of their previously issued report. Therefore, the audit report dated November 7, 2006 was withdrawn and replaced by this report.

In addition, results of compliance tests disclosed one instance of potential noncompliance with the Anti-Deficiency Act. The Agency is addressing this issue to the General Accountability Office.

The auditor's noted three material weaknesses involving controls over accounting operations, transaction processing and information technology (IT) security. The material weaknesses raised significant concerns about the auditability of SSS' financial statements.



SSS was unable to provide sufficient evidential matter to support certain transactions and account balances presented in the financial statements.

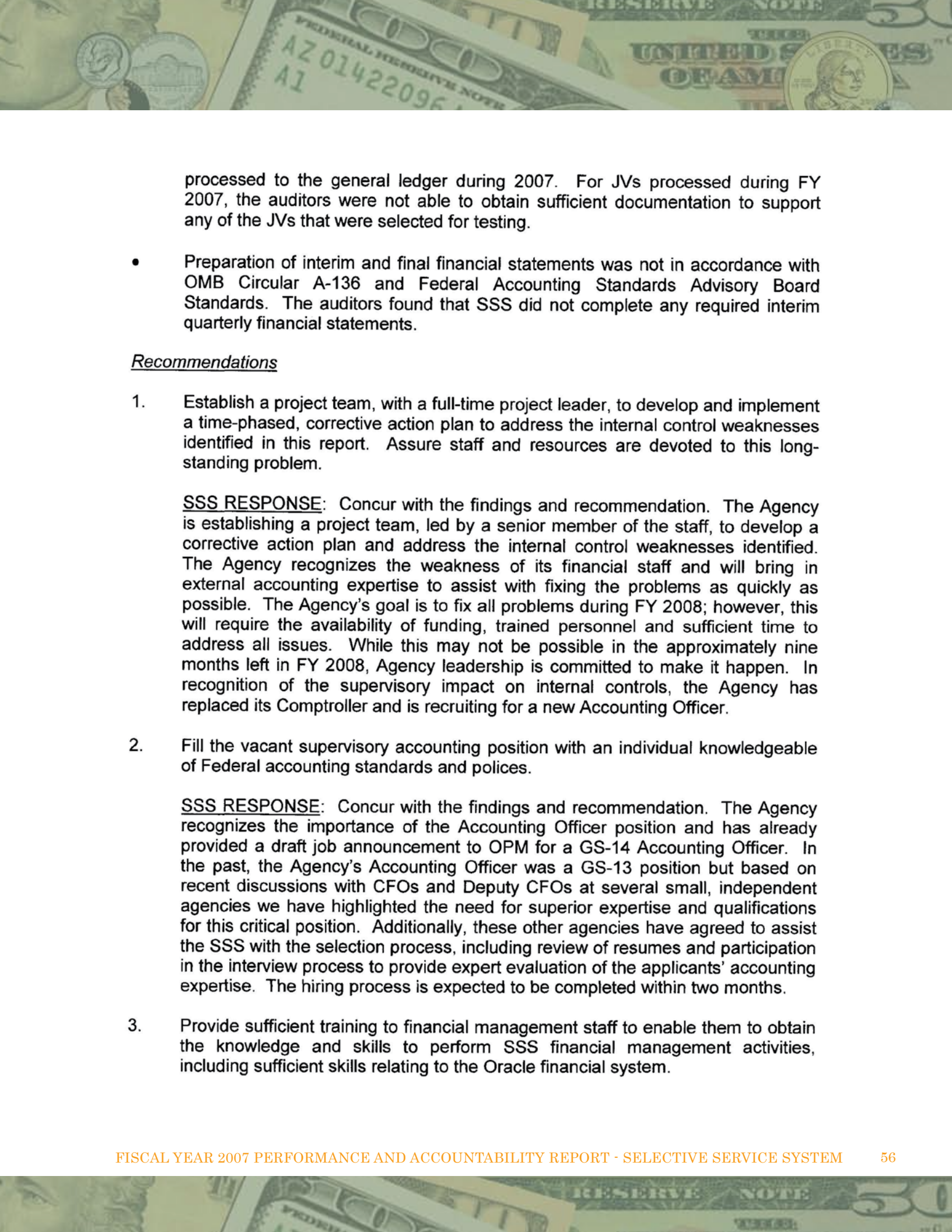
- SSS made unsupported adjustments to its Fund Balance with Treasury.
- SSS did not research and correct material differences between SSS' and Treasury's collection and disbursement records, dating to 2005.
- SSS was unable to provide sufficient evidence to support the completeness and accuracy of accounts payable.
- SSS was unable to provide sufficient evidence to support the completeness and accuracy of its Federal Employee Compensation Act Actuarial Liabilities.
- SSS was unable to provide sufficient evidence to support the transactions relating to SSS' total Net Position.
- SSS did not have sufficient support for certain transactions and account balances related to advances, collections, obligations incurred, and certain line items in the Reconciliation of Net Cost of Operations (proprietary) to Budget.
- The presentation and disclosure of certain financial statement line item amounts did not conform to generally accepted accounting principles.

FINDINGS AND RECOMMENDATIONS

The auditors presented the following Findings and Recommendations which the Agency acknowledges and accepts. The Agency's intended course of action is appended to each recommendation.

Finding # 1 - Accounting Operations Need Strengthening

- Internal controls need to be strengthened, including developing an accounting manual with control procedures, accounting operations and financial reporting requirements.
- Problems continue to exist with reconciling Fund Balance with Treasury (FBWT) and are attributed to lack of documented control processes and lack of supervisory oversight. Similar problems were reported in the 2006 audit. The Agency agreed to correct the material weakness identified in 2006 and developed draft procedures addressing this process; however, these procedures were never finalized and were not always followed.
- Journal vouchers (JV) are not properly supported. Control weaknesses relating to journal vouchers processed to the general ledger, which were reported in the 2006 audit, continue to have a significant impact on the Agency's ability to provide necessary support for certain adjustments made to and transactions



processed to the general ledger during 2007. For JVs processed during FY 2007, the auditors were not able to obtain sufficient documentation to support any of the JVs that were selected for testing.

- Preparation of interim and final financial statements was not in accordance with OMB Circular A-136 and Federal Accounting Standards Advisory Board Standards. The auditors found that SSS did not complete any required interim quarterly financial statements.

Recommendations

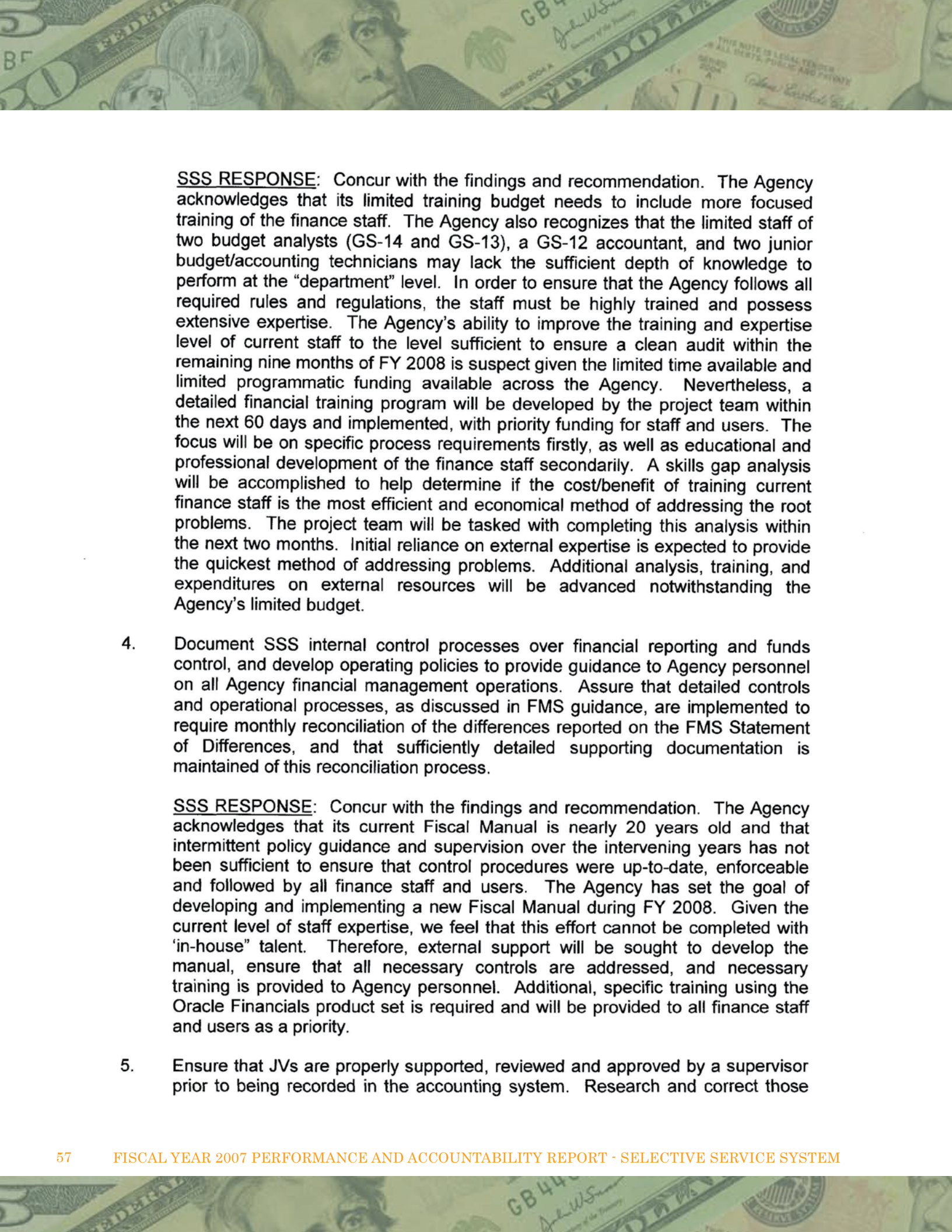
1. Establish a project team, with a full-time project leader, to develop and implement a time-phased, corrective action plan to address the internal control weaknesses identified in this report. Assure staff and resources are devoted to this long-standing problem.

SSS RESPONSE: Concur with the findings and recommendation. The Agency is establishing a project team, led by a senior member of the staff, to develop a corrective action plan and address the internal control weaknesses identified. The Agency recognizes the weakness of its financial staff and will bring in external accounting expertise to assist with fixing the problems as quickly as possible. The Agency's goal is to fix all problems during FY 2008; however, this will require the availability of funding, trained personnel and sufficient time to address all issues. While this may not be possible in the approximately nine months left in FY 2008, Agency leadership is committed to make it happen. In recognition of the supervisory impact on internal controls, the Agency has replaced its Comptroller and is recruiting for a new Accounting Officer.

2. Fill the vacant supervisory accounting position with an individual knowledgeable of Federal accounting standards and polices.

SSS RESPONSE: Concur with the findings and recommendation. The Agency recognizes the importance of the Accounting Officer position and has already provided a draft job announcement to OPM for a GS-14 Accounting Officer. In the past, the Agency's Accounting Officer was a GS-13 position but based on recent discussions with CFOs and Deputy CFOs at several small, independent agencies we have highlighted the need for superior expertise and qualifications for this critical position. Additionally, these other agencies have agreed to assist the SSS with the selection process, including review of resumes and participation in the interview process to provide expert evaluation of the applicants' accounting expertise. The hiring process is expected to be completed within two months.

3. Provide sufficient training to financial management staff to enable them to obtain the knowledge and skills to perform SSS financial management activities, including sufficient skills relating to the Oracle financial system.

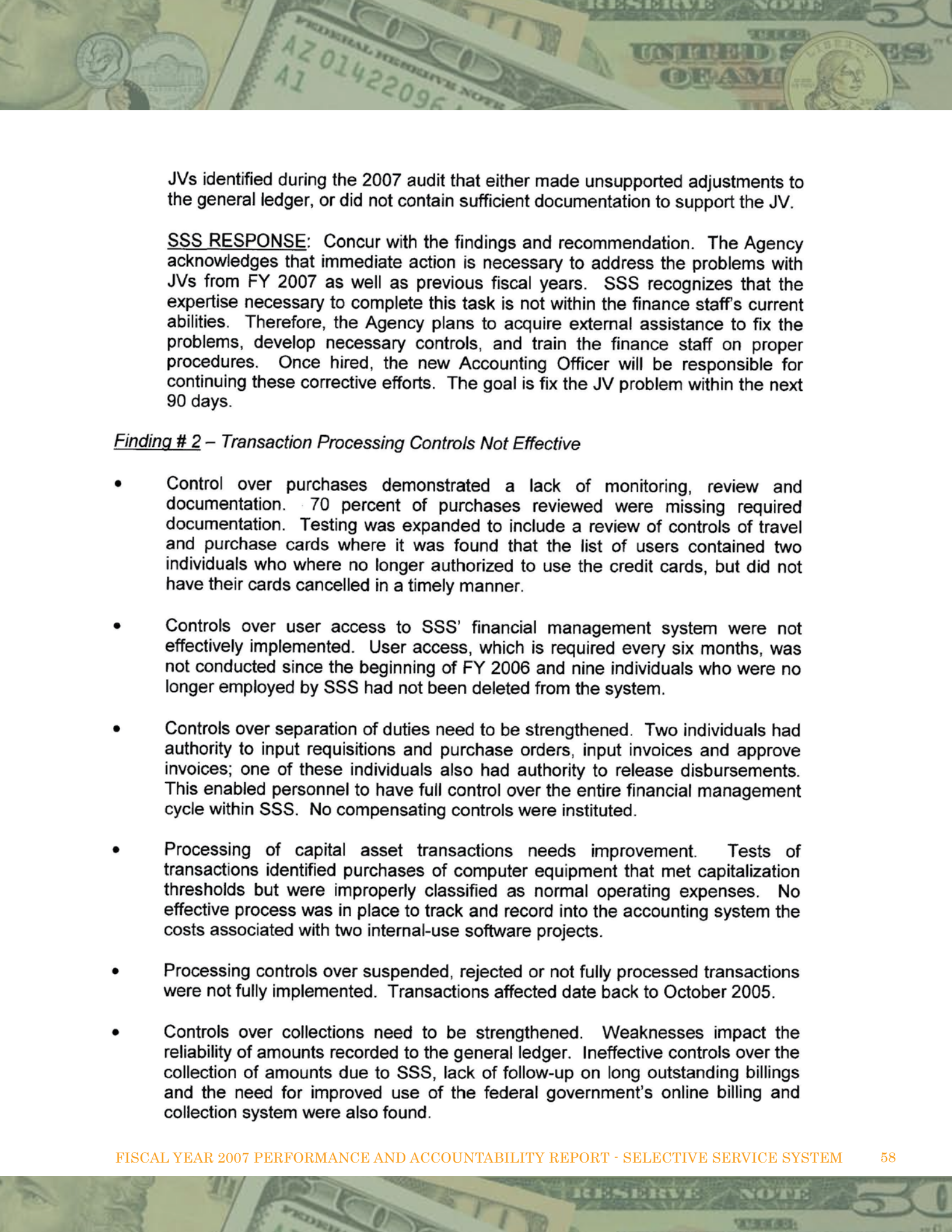


SSS RESPONSE: Concur with the findings and recommendation. The Agency acknowledges that its limited training budget needs to include more focused training of the finance staff. The Agency also recognizes that the limited staff of two budget analysts (GS-14 and GS-13), a GS-12 accountant, and two junior budget/accounting technicians may lack the sufficient depth of knowledge to perform at the “department” level. In order to ensure that the Agency follows all required rules and regulations, the staff must be highly trained and possess extensive expertise. The Agency’s ability to improve the training and expertise level of current staff to the level sufficient to ensure a clean audit within the remaining nine months of FY 2008 is suspect given the limited time available and limited programmatic funding available across the Agency. Nevertheless, a detailed financial training program will be developed by the project team within the next 60 days and implemented, with priority funding for staff and users. The focus will be on specific process requirements firstly, as well as educational and professional development of the finance staff secondarily. A skills gap analysis will be accomplished to help determine if the cost/benefit of training current finance staff is the most efficient and economical method of addressing the root problems. The project team will be tasked with completing this analysis within the next two months. Initial reliance on external expertise is expected to provide the quickest method of addressing problems. Additional analysis, training, and expenditures on external resources will be advanced notwithstanding the Agency’s limited budget.

4. Document SSS internal control processes over financial reporting and funds control, and develop operating policies to provide guidance to Agency personnel on all Agency financial management operations. Assure that detailed controls and operational processes, as discussed in FMS guidance, are implemented to require monthly reconciliation of the differences reported on the FMS Statement of Differences, and that sufficiently detailed supporting documentation is maintained of this reconciliation process.

SSS RESPONSE: Concur with the findings and recommendation. The Agency acknowledges that its current Fiscal Manual is nearly 20 years old and that intermittent policy guidance and supervision over the intervening years has not been sufficient to ensure that control procedures were up-to-date, enforceable and followed by all finance staff and users. The Agency has set the goal of developing and implementing a new Fiscal Manual during FY 2008. Given the current level of staff expertise, we feel that this effort cannot be completed with “in-house” talent. Therefore, external support will be sought to develop the manual, ensure that all necessary controls are addressed, and necessary training is provided to Agency personnel. Additional, specific training using the Oracle Financials product set is required and will be provided to all finance staff and users as a priority.

5. Ensure that JVs are properly supported, reviewed and approved by a supervisor prior to being recorded in the accounting system. Research and correct those



JVs identified during the 2007 audit that either made unsupported adjustments to the general ledger, or did not contain sufficient documentation to support the JV.

SSS RESPONSE: Concur with the findings and recommendation. The Agency acknowledges that immediate action is necessary to address the problems with JVs from FY 2007 as well as previous fiscal years. SSS recognizes that the expertise necessary to complete this task is not within the finance staff's current abilities. Therefore, the Agency plans to acquire external assistance to fix the problems, develop necessary controls, and train the finance staff on proper procedures. Once hired, the new Accounting Officer will be responsible for continuing these corrective efforts. The goal is fix the JV problem within the next 90 days.

Finding # 2 – Transaction Processing Controls Not Effective

- Control over purchases demonstrated a lack of monitoring, review and documentation. 70 percent of purchases reviewed were missing required documentation. Testing was expanded to include a review of controls of travel and purchase cards where it was found that the list of users contained two individuals who were no longer authorized to use the credit cards, but did not have their cards cancelled in a timely manner.
- Controls over user access to SSS' financial management system were not effectively implemented. User access, which is required every six months, was not conducted since the beginning of FY 2006 and nine individuals who were no longer employed by SSS had not been deleted from the system.
- Controls over separation of duties need to be strengthened. Two individuals had authority to input requisitions and purchase orders, input invoices and approve invoices; one of these individuals also had authority to release disbursements. This enabled personnel to have full control over the entire financial management cycle within SSS. No compensating controls were instituted.
- Processing of capital asset transactions needs improvement. Tests of transactions identified purchases of computer equipment that met capitalization thresholds but were improperly classified as normal operating expenses. No effective process was in place to track and record into the accounting system the costs associated with two internal-use software projects.
- Processing controls over suspended, rejected or not fully processed transactions were not fully implemented. Transactions affected date back to October 2005.
- Controls over collections need to be strengthened. Weaknesses impact the reliability of amounts recorded to the general ledger. Ineffective controls over the collection of amounts due to SSS, lack of follow-up on long outstanding billings and the need for improved use of the federal government's online billing and collection system were also found.



Recommendations

1. Require all purchase card holders, and approving officials to review and certify that they have read and understand the controls and processing requirements contained in SSS Directive 700-16.

SSS RESPONSE: Concur with the findings and recommendation. The Agency will require all purchase card holders and approving officials to read and practice the guidance of this Directive. Anticipate compliance within the next 30 days.

2. Strengthen oversight to assure that controls required in SSS Directive 700-16 are met by purchase card holders and approving officials.

SSS RESPONSE: Concur with the findings and recommendation. The Agency will institute routine senior level oversight to ensure that controls are met by all purchase card holders and approving officials. Routine compliance will be monitored by senior finance staff.


3. Perform random, unannounced reviews of purchase card records as required by SSS directives.

SSS RESPONSE: Concur with the findings and recommendation. The Agency will institute random, unannounced senior level review of purchase card records as required. The project team will be charged with conducting a comprehensive review within the next 30 days. Results of reviews will be shared with financial staff and senior Agency managers and recommendations for improved controls will be implemented. The Agency's Comptroller will ensure future reviews conducted and corrective actions taken immediately.

4. Require appropriate support service personnel to review purchase card and travel card listings to ensure that personnel no longer with SSS or no longer authorized use of the government credit cards have their accounts cancelled.

SSS RESPONSE: Concur with the findings and recommendation. The Agency will immediately institute a review of all purchase card and travel card listings and cancel all accounts for personnel who no longer are authorized users or who no longer work for the Agency. The project team will conduct the initial review within the next 30 days; the Comptroller will be responsible for ensuring periodic reviews are conducted periodically to ensure that timely deactivation/cancellation of accounts is accomplished in accordance with policy directives.

5. Ensure that SSS personnel responsible for the control of users' access to its accounting service provider's systems perform the required semi-annual review of users' access authorities and document the results of the review.



SSS RESPONSE: Concur with the findings and recommendation. The Agency will charge the project team with conducting an immediate review of all user access accounts including access authorities to determine proper access and where necessary terminate access within the next 30 days. Thereafter, the Comptroller will ensure that a periodic review is conducted in accordance with Agency policy.

6. Perform an immediate review of all users who have access to SSS financial management systems. Delete all users who do not have a current and specific need for access to the systems, and document the results of the review.

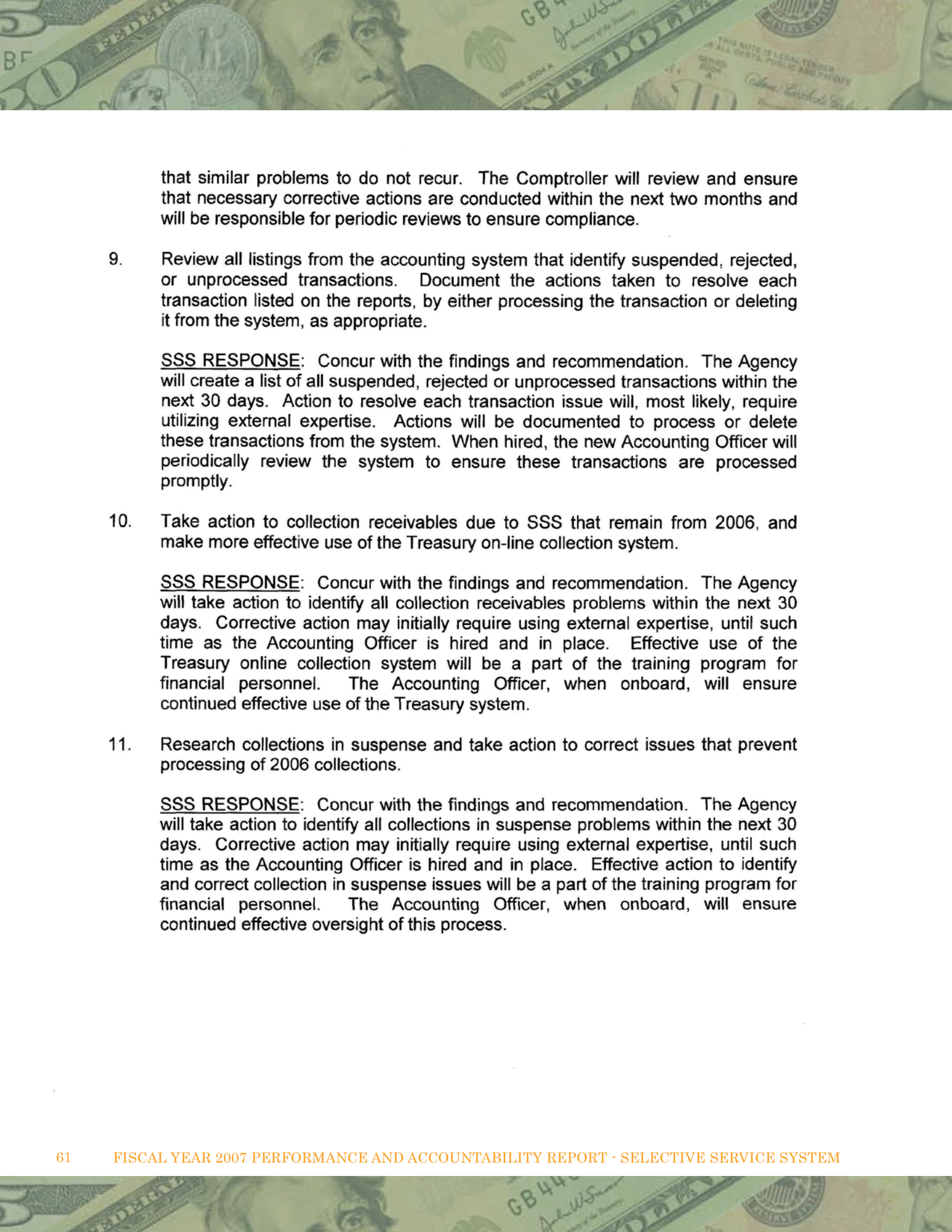
SSS RESPONSE: Concur with the findings and recommendation. The Agency will charge the project team with conducting a review of all user access accounts to determine required access within the next 30 days. The Comptroller will ensure that access is authorized/terminated, as appropriate, based on demonstrate need and separation of duties. The Comptroller will ensure that a periodic review is conducted in accordance with Agency policy.

7. Review the access authorities granted each user, with emphasis on financial management personnel, to ensure that authorities granted adhere to appropriate segregation of duties controls as established in GAO standards and SSS's service provider's client controls. Delete user access authorities that conflict, or establish appropriate compensating controls.

SSS RESPONSE: Concur with the findings and recommendation. The Director will charge the project team with conducting a review of all user access accounts, including access authorities to determine proper access and separation of duties, within the next 30 days. The Comptroller will ensure that, where necessary, access will be terminated and will conduct a periodic review in accordance with Agency policy.

8. Assure that the expenses associated with SSS's two internal-use software development projects are identified, including overhead costs, and accounted for in accordance with accounting standards. Develop internal controls and issue procedures that will ensure the problems related to the proper accounting for internal-use software do not recur.

SSS RESPONSE: Concur with the findings and recommendation. All expenses associated with the internal software development projects have been thoroughly and routinely captured by the Information Technology staff following OPM guidance for the capitalization of software development but have not properly accounted for by the finance management staff. The Agency will ensure that all software development costs are tracked and captured and are properly accounted for in accordance with all accounting standards by the financial management staff. Internal controls will be developed and implemented as part of the overall development of fiscal policy, including routine reviews, to ensure



that similar problems to do not recur. The Comptroller will review and ensure that necessary corrective actions are conducted within the next two months and will be responsible for periodic reviews to ensure compliance.

9. Review all listings from the accounting system that identify suspended, rejected, or unprocessed transactions. Document the actions taken to resolve each transaction listed on the reports, by either processing the transaction or deleting it from the system, as appropriate.

SSS RESPONSE: Concur with the findings and recommendation. The Agency will create a list of all suspended, rejected or unprocessed transactions within the next 30 days. Action to resolve each transaction issue will, most likely, require utilizing external expertise. Actions will be documented to process or delete these transactions from the system. When hired, the new Accounting Officer will periodically review the system to ensure these transactions are processed promptly.

10. Take action to collection receivables due to SSS that remain from 2006, and make more effective use of the Treasury on-line collection system.

SSS RESPONSE: Concur with the findings and recommendation. The Agency will take action to identify all collection receivables problems within the next 30 days. Corrective action may initially require using external expertise, until such time as the Accounting Officer is hired and in place. Effective use of the Treasury online collection system will be a part of the training program for financial personnel. The Accounting Officer, when onboard, will ensure continued effective use of the Treasury system.

11. Research collections in suspense and take action to correct issues that prevent processing of 2006 collections.

SSS RESPONSE: Concur with the findings and recommendation. The Agency will take action to identify all collections in suspense problems within the next 30 days. Corrective action may initially require using external expertise, until such time as the Accounting Officer is hired and in place. Effective action to identify and correct collection in suspense issues will be a part of the training program for financial personnel. The Accounting Officer, when onboard, will ensure continued effective oversight of this process.

**Selective Service System
Balance Sheets
For the Years Ended September 30, 2007 and 2006**

	2007	2006
Assets		
Intragovernmental Assets:		
Fund Balance with Treasury (Note 2)	\$ 13,685,886	\$ 13,600,734
Accounts Receivable, Net (Note 3)	341,115	166,263
Total Intragovernmental Assets	\$ 14,027,001	\$ 13,766,997
General Equipment, Net (Note 4)	1,572,686	1,259,616
Assets Under Capital Lease (Note 5)	34,065	85,163
Total Assets	\$ 15,633,752	\$ 15,111,776
Liabilities		
Intragovernmental Liabilities:		
Accounts Payable (Note 8)	\$ 971,118	\$ 1,133,070
Unfunded Actuarial FECA Liability (Notes 7 & 11)	598,114	585,728
Total Intragovernmental Liabilities	\$ 1,569,232	\$ 1,718,798
Public Liabilities:		
Accounts Payable	703,248	259,244
Unfunded FECA (Notes 7 & 11)	3,055,153	2,927,650
Unfunded Annual Leave (Note 11)	807,055	778,770
Other Liabilities (Note 9)	509,602	642,604
Total Liabilities	\$ 6,644,290	\$ 6,327,066
Net Position		
Unexpended Appropriations	10,098,391	10,567,833
Cumulative Results of Operations	(1,108,929)	(1,783,123)
Total Net Position	\$ 8,989,462	\$ 8,784,710
Total Liabilities and Net Position	\$ 15,633,752	\$ 15,111,776

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

**Selective Service System
Statements of Net Cost
For the Years Ended September 30, 2007 and 2006**

	FY 2007	FY 2006
Program Cost		
Gross Cost (Note 10)	\$ 25,163,614	\$ 23,931,779
Less: Revenue Earned from the Public	334,110	336,094
Net Cost of Operations	\$ 24,829,504	\$ 23,595,685

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

**Selective Service System
Statements of Changes in Net Position
For the Years Ended September 30, 2007 and 2006**

	2007	2006
UNEXPENDED APPROPRIATIONS		
Beginning Balance	\$ 10,567,833	\$ 9,064,569
Prior Period Adjustments	-	-
Beginning Balances, as adjusted	10,567,833	9,064,569
Budgetary Financing Sources		
Appropriations Received, General Funds	24,850,423	24,996,094
Appropriations-Used	(24,468,642)	(22,344,062)
Other Adjustments	(851,223)	(1,148,768)
Total Budgetary Financing Sources	(469,442)	1,503,264
Ending Balance - Unexpended Appropriations	\$ 10,098,391	\$ 10,567,833
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balance	\$ (1,783,123)	\$ (1,559,047)
Budgetary Financing Sources		
Appropriations-Used	24,468,642	22,344,062
Non-Exchange Revenue:		
Other Non-Exchange Revenue		
Other Financing Sources		
Imputed Financing from Cost Absorbed by Others	1,035,056	1,027,547
Total Financing Sources	25,503,698	23,371,609
Net Cost of Operations	(24,829,504)	(23,595,685)
Net Change in Cumulative Results of Operations	674,194	(224,076)
Ending Balance - Cumulative Results of Operations	\$ (1,108,929)	\$ (1,783,123)

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

**Selective Service System
Statements of Budgetary Resources
For Years Ended September 30, 2007 and 2006**

	General Operations	
	2007	2006
Budgetary Resources:		
Unobligated balance, beginning of Fiscal Year:	\$ 5,783,293	\$ 7,166,297
Recoveries of prior year unpaid obligations	5,335	694,436
Budget Authority		
Appropriation	24,850,423	25,000,000
Borrowing Authority	-	-
Contract Authority	-	-
Spending authority from offsetting collections		
Earned		
Collected	159,259	252,064
Change in receivables from Federal sources	174,852	84,030
Change in unfilled customer orders		
Advance received	-	-
Without advance from Federal sources	16,027	-
Anticipated for rest of year, without advances	-	-
Previously unavailable	-	-
Expenditure transfers from trust funds	-	-
Total Budget Authority	30,989,189	33,196,827
Nonexpenditure transfers, net, anticipated and actual	-	-
Temporarily not available pursuant to Public Law	-	-
Permanently not available	(894,391)	(1,148,768)
Total Budgetary Resources	\$ 30,094,798	\$ 32,048,059
Status of Budgetary Resources:		
Obligations incurred:		
Direct	\$ 22,888,081	\$ 26,264,766
Reimbursable	419,030	-
Total Obligations incurred	23,307,111	26,264,766
Unobligated balance available:		
Apportioned	1,012,831	144,452
Exempt from apportionment	-	-
Total Unobligated balance available	1,012,831	144,452
Unobligated balance not available	5,774,857	5,638,841
Total Status of Budgetary Resources	\$ 30,094,798	\$ 32,048,059
Change in Obligated Balance:		
Obligated balance, net		
Unpaid obligations, brought forward, beginning of Fiscal Year	\$ 7,925,903	\$ (4,734,560)
Less: Uncollected customer payments from Federal sources, brought forward, beginning of Fiscal Year	(166,263)	(82,233)
Total unpaid obligated balances, net	7,759,640	(4,652,327)
Obligations incurred, net	23,307,111	(26,264,766)
Less: Gross outlays	(23,972,337)	22,378,987
Less: Recoveries of prior year unpaid obligations, actual	(5,335)	694,436
Change in uncollected customer payments from Federal sources	(190,877)	84,030
Total unpaid obligated balance, net end of period	6,898,202	(7,759,640)
Obligated balance, net, end of period		
Unpaid obligations	7,255,343	(7,925,903)
Less: Uncollected customer payments from Federal sources	(357,141)	(166,263)
Total, unpaid obligated balance, net, end of period	\$ 6,898,202	\$ (7,759,640)
Net Outlays:		
Net Outlays		
Gross outlays	\$ 23,972,337	\$ 22,378,987
Less: Offsetting collections	(159,258)	(252,065)
Net Outlays(Receipts)	\$ 23,813,079	\$ 22,126,922

**Selective Service System
Statements of Financing
For the Years Ended September 30, 2007 and 2006**

	2007	2006
Resources Used to Finance Activities		
Budgetary Resources Obligated:		
Obligations Incurred	\$ 23,307,111	\$ 26,264,766
Less: Spending Authority from Offsetting Collections/Adjustments	(164,593)	(1,030,532)
Obligations net of offsetting collections and recoveries	23,142,518	25,234,234
Less: Offsetting receipts	-	-
Obligations Net of Offsetting Collections and Adjustments	23,142,518	25,234,234
Other Resources:		
Imputed Financing from Costs Absorbed by Others	1,035,056	1,027,547
Total Resources Used to Finance Activities	\$ 24,177,574	\$ 26,261,781
Resources Used to Finance Items not Part of the Net Cost of Operations		
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered but Not Yet Provided	\$ -	\$ 2,757,891
Resources that fund expenses recognized prior periods		122,825
Resources that Finance the Acquisition of Assets	(537,727)	483,677
Other resources or adjustments to net obligated resources that do not affect net cost of operations	840,797	
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	303,070	3,364,393
Total Resources Used to Finance the Net Cost of Operations	\$ 24,480,644	\$ 29,626,174
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period		
Components Requiring or Generating Resources in Future Periods:		
Not requiring current year authority	\$ -	\$ 49,860
Change in actuarial liability		182,310
Increase in Worker's Compensation Liability		
Total Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods		232,170
Components not Requiring or Generating Resources:		
Depreciation (Note 4)	317,294	217,085
Change in bad debt expense		
Other	31,566	
Total Components of Net Cost of Operations That Will Not Require or Generate Resources	348,860	217,085
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	348,860	449,255
Net Cost of Operations	\$ 24,829,504	\$ 22,969,144

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



SELECTIVE SERVICE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2007

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The accompanying financial statements present the financial position, net cost of operations, changes in net position, budgetary resources, and financing of the Selective Service System (SSS). The SSS is an independent Federal agency, operating with permanent authorization under the Military Selective Service Act (50 U.S.C. App.451 et seq.). It 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 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 financial activity presented relates primarily to the execution of SSS's Congressionally approved budget. The SSS budget consists of an annual appropriation covering salaries and expenses and revenue from reimbursable work. This revenue is included on the Statement of Budgetary Resources as "reimbursable services." The financial statements, except for Federal employee benefit costs paid by the Office of Personnel Management (OPM) and imputed to SSS, do not include the effects of centrally administered assets and liabilities related to the Federal government as a whole.

B. Basis of Presentation

The accompanied financial statements are provided to meet the requirements of the Accountability of Tax Dollars Act of 2002. The statements consist of the Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources and Statement of Financing.

These financial statements have been prepared to report the financial position and results of operations of SSS. These statements were prepared from the books and records of SSS in conformity with accounting principles generally accepted in the United States, and the Office of Management and Budget (OMB) Circular A-136, Financial Reporting Requirements.

These statements conform to U.S. Generally Accepted Accounting Principles (GAAP) as promulgated by the Federal Accounting Standards Advisory Board (FASAB). The American Institute of Certified Public Accountants (AICPA) recognizes FASAB Standards as GAAP for federal reporting entities. These principles differ from budgetary reporting principles. The differences relate primarily to the capitalization and depreciation of property and equipment, as well as the recognition of other long-term assets and liabilities.



SELECTIVE SERVICE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2007

C. Basis of Accounting

Transactions are recorded on an accrual accounting basis and a budgetary basis. Under the accrual method, revenues are recognized when earned and expenses are recognized when liabilities are incurred, without regard to receipt or payment of cash. Budgetary accounting measures the appropriations and consumption of budget authority and other budgetary resources and facilitates compliance with legal constraints and controls over use of Federal funds.

D. Revenues and Other Financing Sources

SSS receives most funding through Congressional appropriation from the budget of the United States. Annual appropriations are used, within statutory limits, for operating and capital expenditures for essential personal property. Appropriations are recognized as revenues at the time the related program or administrative expenses are incurred. Appropriations expended for capitalized property and equipment are recognized as expenses when an asset is consumed in operations.

A small amount of funding is received by performing reimbursable services for other Federal agencies. The funds received are used to pay the cost of performing these services.

E. Fund Balance with Treasury

Funds with the Department of the Treasury primarily represent appropriated funds that are available to pay current liabilities and finance authorized purchase commitments. See Note 2 for additional information.

F. Advances and Prepayments

SSS records payments for goods and services not yet received as advances and reduces the advances by charges to expense as the goods and services are received.

G. General Property, Plant, and Equipment, Net

SSS's property, plant and equipment are recorded at cost and are depreciated using the straight-line method over the estimated useful life of the asset. Major alterations and renovations are capitalized, while maintenance and repair costs are charged to expense as incurred. SSS's capitalization threshold is \$10,000 for individual purchases and \$50,000 for bulk purchases. Service lives are shown below. See Note 4 for additional information.

**SELECTIVE SERVICE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2007**

<u>Description</u>	<u>Life</u>
Furniture/Fixtures	7
ADP Equipment	3
ADP Software	3
Telecommunication Equipment	3
Office Equipment	5
Other Equipment	7
Internal Use Software	7

H. Liabilities

Liabilities represent the amount of monies or other resources likely to be paid by SSS as a result of transactions or events that have already occurred. No liability can be paid, however, absent an appropriation. Liabilities for which an appropriation has not been enacted are, therefore, classified as not covered by budgetary resources, and there is no certainty that the appropriation will be enacted. Also, liabilities can be abrogated by the Government, acting in its sovereign capacity. See Notes 7, 8, and 10 for additional information.

I. Accounts Payable

Accounts payable consists of amounts owed to other Federal agencies, and commercial vendors for goods, services, and other expenses received but not yet paid.

J. Annual, Sick, and Other Leave

Annual leave is accrued as it is earned, and the accrual is reduced as leave is taken. Each year, the balance in the accrued leave account is adjusted to reflect current pay rates. To the extent current or prior year appropriations are not available to fund annual leave earned but not taken, funding will be obtained from future financing sources. Sick leave and other types of nonvested leave are expensed as taken.

K. Retirement Plans

SSS employees participate in the Civil Service Retirement System (CSRS) or the Federal Employees' Retirement System (FERS). FERS was established by the enactment of Public Law 99-335. Pursuant to this law, FERS and Social Security automatically cover most employees hired after December 31, 1983. Employees hired before January 1, 1984, elected to join both FERS and Social Security or remain in CSRS.



SELECTIVE SERVICE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2007

All employees are eligible to contribute to the Thrift Savings Plan (TSP). For those employees participating in the FERS, a TSP account is automatically established and SSS makes a mandatory one percent contribution to this account. In addition, SSS makes matching contributions, ranging from one to four percent, for FERS eligible employees who contribute to their TSP accounts. Matching contributions are not made to the TSP accounts established by CSRS employees.

FERS employees and certain CSRS reinstatement employees are eligible to participate in the Social Security program after retirement. In these instances, SSS remits the employer's share of the required contribution.

SSS does not report on its financial statements information pertaining to the retirement plans covering its employees. Reporting amounts such as plan assets, accumulated plan benefits, and related unfunded liabilities, if any, is the responsibility of the Office of Personnel Management.

L. Imputed Costs / Financing Sources

Federal Government entities often receive goods and services from other Federal Government entities without reimbursing the providing entity for all the related costs. In addition, Federal Government entities also incur costs that are paid in total or in part by other entities. An imputed financing source is recognized by the receiving entity for costs that are paid by other entities. SSS recognized imputed costs and financing sources in Fiscal Year 2004 to the extent directed by OMB.

M. Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed herein.

N. Expired Accounts and Canceled Authority

Unless otherwise specified by law, annual authority expires for incurring new obligations at the beginning of the subsequent fiscal year. The account into which the annual authority is placed is called the expired account. For five fiscal years, the expired account is available for expenditure to liquidate valid obligations incurred during the unexpired period. Adjustments are allowed to increase or decrease valid obligations incurred during the unexpired period but not previously reported. At the end of the fifth expired year, the expired account is canceled.

**SELECTIVE SERVICE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2007**

NOTE 2. Fund Balance with the U.S. Treasury

SSS's funds with the U.S. Treasury consist of only appropriated funds. The status of these funds as of September 30, 2007 is as follows:

	FY 2007 <u>(In Dollars)</u>	FY 2006 <u>(In Dollars)</u>
Fund Balances		
Appropriated Funds	<u>\$ 13,685,886</u>	<u>\$ 13,600,734</u>
Status of Fund Balance with Treasury		
Unobligated Balance		
-Available	\$ 1,012,830	\$ 144,452
-Unavailable	5,774,855	5,638,841
Obligated Balance not yet Disbursed	<u>6,898,201</u>	<u>7,817,441</u>
Total	<u>\$ 13,685,886</u>	<u>\$ 13,600,734</u>

NOTE 3. Accounts Receivable, Net

On September 30, 2007, SSS had one uncollected bill recorded in accounts receivable. The bill was for reimbursable services provided under the Memorandum of Agreement between SSS and the Department of Defense (DoD) in support of mailings performed by SSS on behalf of DoD.

	FY 2007 <u>(In Dollars)</u>	FY 2006 <u>(In Dollars)</u>
Department of Defense	<u>\$ 341,115</u>	<u>\$ 166,263</u>
Total	<u>\$ 341,115</u>	<u>\$ 166,623</u>

NOTE 4. General Property, Plant, and Equipment, Net

The composition of property and equipment as of September 30, 2007, is as follows:

<u>Description</u>	<u>Acquisition Cost (In Dollars)</u>	<u>Accumulated Depreciation (In Dollars)</u>	<u>Net Book Value (In Dollars)</u>
ADP Software	\$ 1,732,484	\$ (-271,395)	\$ 1,461,089
ADP Equipment	524,417	(478,322)	46,095

**SELECTIVE SERVICE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2007**

Office Equipment	227,380	(209,015)	18,365
Telecomm Equipment	45,568	(35,422)	10,126
Other Equipment	<u>93,409</u>	<u>(56,398)</u>	<u>37,011</u>
TOTALS	<u>\$ 2,623,258</u>	<u>(\$1,050,571)</u>	<u>\$ 1,572,686</u>

The composition of property and equipment as of September 30, 2006, was as follows:

<u>Description</u>	<u>Acquisition Cost (In Dollars)</u>	<u>Accumulated Depreciation (In Dollars)</u>	<u>Net Book Value (In Dollars)</u>
ADP Software	\$ 1,443,552	\$ (343,474)	\$ 1,100,078
ADP Equipment	242,067	(172,960)	69,107
Office Equipment	18,800	(18,800)	0
Telecomm Equipment	146,447	(107,551)	38,896
Other Equipment	<u>228,162</u>	<u>(176,627)</u>	<u>51,535</u>
TOTALS	<u>\$ 2,079,028</u>	<u>\$ (819,412)</u>	<u>\$ 1,259,616</u>

NOTE 5. Assets Under Capital Lease

	<u>FY 2007 (In Dollars)</u>	<u>FY 2006 (In Dollars)</u>
Summary of Assets Under Capital Lease		
Computer Equipment	\$ 153,293	\$ 153,293
Accumulated Depreciation	<u>(119,228)</u>	<u>(68,130)</u>
Book Value of Assets Under Capital Lease	<u>\$ 34,065</u>	<u>\$ 85,163</u>

This capital lease was entered into by SSS and Adams-Brown Services, Inc., of Huntsville, AL, on April 27, 2005. It called for leasing of 87 E-3600 Deluxe Dell computer systems with a unit cost of \$1,739. The final lease payment will be made in FY 2007 and the units will be fully depreciated in FY 2008. The units are being depreciated over a period of 3 years using straight line depreciation. There are no future payments due.

NOTE 6. Operating Leases

Three long-term leases are in place for space rental for the Selective Service System. The four leases are as follows: (1) The National Headquarters, (2) the Region II Headquarters (in Smyrna, Georgia), and (3) the Region III Headquarters (in Denver, Colorado).

**SELECTIVE SERVICE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2007**

For National Headquarters, a ten-year lease was negotiated in 2003 extending a prior lease as agreed upon between the two parties through October 2013. The base yearly charge for this lease was \$750,017 whereby the General Services Administration (GSA) can escalate the charges each year within a 5% to 10% range to cover the anticipated increases in their operating costs. In 2007, SSS reduced their space needs and renegotiated the National Headquarters lease to a base yearly charge of \$501,525 with the same escalation charge as was in the original lease.

The lease for the Region II Headquarters space is a ten-year lease that was initiated in 2004 and expires in 2014. The base yearly charge is \$69,654 with an annual escalation charge of 5% to 6% to cover the anticipated increases in the GSA operating costs. The annual escalation charge increases the rent annually to \$105,820.50 in 2014.

The lease for the Region III headquarters is a five-year lease that was signed in January 2006 and expires in December 2011. The yearly charge is \$94,023. No annual escalation charge applies.

Schedule of Future Operating Lease Payments

	FY 2007 (In Dollars)	FY 2006 (In Dollars)
FY 2008	\$ 727,030	\$ 937,342
FY 2009	775,278	950,802
FY 2010	827,262	964,546
FY 2011	883,276	978,583
FY 2012	847,634	992,784
After Five Years	<u>1,035,922</u>	<u>1,113,871</u>
TOTAL FUTURE PAYMENTS	<u>\$5,096,402</u>	<u>\$5,937,928</u>

NOTE 7. FEDERAL EMPLOYEES' COMPENSATION ACT (FECA)

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.

**SELECTIVE SERVICE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2007**

For 2006, and again in 2007, 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 liability for claims incurred but not reported as of September 30, 2007: and 2006, which is expected to be paid in future periods. This estimated liability of \$ 3,055,154 and \$ 3,001,070 as of September 30, 2007, and 2006, respectively, is reported on SSS's Balance Sheet. SSS also recorded a liability for amounts paid to claimants by DOL as of September 30, 2007, and 2006, of \$ 598,114 and \$ 474,216, respectively, but not yet reimbursed to DOL by SSS. The amount owed to DOL is reported on SSS's Balance Sheet as an intragovernmental liability

NOTE 8. Intragovernmental Liabilities – Accounts Payable

Intragovernmental Liabilities are the amounts that the SSS owes other federal government agencies.

	FY 2007 <u>(In Dollars)</u>	FY 2006 <u>(In Dollars)</u>
Department of Defense	\$ 755,290	\$ 959,508
Department of Agriculture	0	2,785
Department of Labor	0	2,297
Military Entrance Processing	0	78,407
U.S. Postal Service	146,677	
Government Printing Office	29,001	0
Department of Justice	21,732	0
Government Services Agency	18,418	0
Internal Revenue Service	<u>0</u>	<u>90,073</u>
TOTALS	<u>\$971,118</u>	<u>\$ 1,133,070</u>

NOTE 9. Other Liabilities

The accrued liabilities for SSS are comprised of program and lease expense accruals, payroll accruals, and unfunded annual leave earned by employees. Program expense accruals represent expenses that were incurred prior to year-end, but were not paid. Similarly, payroll accruals represent payroll expenses that were incurred prior to year-end, but were not paid.

**SELECTIVE SERVICE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2007**

	FY 2007 <u>(In Dollars)</u>	FY 2006 <u>(In Dollars)</u>
Accrued Funded Payroll and Leave	\$ 509,602	\$ 591,371
Capital Lease Liability	<u>0</u>	<u>51,233</u>
TOTALS	<u>\$ 509,602</u>	<u>\$ 642,604</u>

NOTE 10. Intragovernmental Costs and Exchange Revenue

	FY 2007 <u>(In Dollars)</u>	FY 2006 <u>(In Dollars)</u>
Program Costs		
Intragovernmental Costs	\$ 7,894,490	\$ 7,190,103
Public Costs	<u>17,269,124</u>	<u>16,741,676</u>
Total Program Costs	<u>\$ 25,163,614</u>	<u>\$ 23,931,779</u>
Intragovernmental Earned Revenue	<u>334,110</u>	<u>336,094</u>
Total Revenue	<u>\$334,110</u>	<u>\$ 336,094</u>

Intragovernmental costs are those expenses paid by SSS to other federal government entities. They include, but are not limited to, the Army National Guard Bureau, 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. These entities were the Bureau of Census and Department of Defense.

NOTE 11: Liabilities Not Covered by Budgetary Resources

The liabilities on Selective Service System's Balance Sheet as of September 30, 2007, 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, 2007, and 2006 is as follows:

**SELECTIVE SERVICE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2007**

	FY 2007 <u>(In Dollars)</u>	FY 2006 <u>(In Dollars)</u>
Intragovernmental liabilities		
Unfunded FECA	\$ <u>598,114</u>	\$ <u>585,728</u>
Total Intragovernmental liabilities	\$ <u>598,114</u>	\$ <u>585,728</u>
Unfunded Annual Leave	\$ 807,055	\$ 778,771
Actuarial FECA	<u>3,055,154</u>	<u>2,927,650</u>
Total Liabilities Not Covered By Budgetary Resources	<u>\$ 4,460,323</u>	<u>\$ 4,292,149</u>

NOTE 12: Undelivered Orders at the End of the Period

Undelivered orders are purchase orders issued by SSS during Fiscal Year 2007 that have not had delivered of required product or service as of September 30, 2007. It is anticipated that these undelivered items will be provided in future periods and will require resources obligated during Fiscal Year 2007.

	FY 2007 <u>(In Dollars)</u>	FY 2006 <u>(In Dollars)</u>
Undelivered Orders	\$ <u>4,903,268</u>	\$ <u>5,986,288</u>
Total Undelivered Orders	\$ <u>4,903,268</u>	\$ <u>5,986,288</u>

NOTE 13: President's Budget

An explanation of differences between the Statement of Budgetary Resources and the Budget of the U.S. Government is presented in the tables below.

The Statement of Budgetary Resources has been prepared to coincide with the amounts shown in the President's Budget (Budget of the United States Government).

A comparison of FY 2007 Statement of Budgetary Resources to the President's Budget is shown in the following table.

Any differences for FY 2007 and FY 2006 between the President's Budget and Statement of Budgetary Resources are due to rounding because the President's Budget is rounded up or down to the nearest millionth dollar.

SELECTIVE SERVICE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2007

	President's Budget	2007	Difference	Explan- ation
Budgetary Resources:				
Unobligated balance, beginning of Fiscal Year:	\$ 5,000,000	\$ 5,783,293	\$ 783,293	C
Recoveries of prior year unpaid obligations	-	5,335	5,335	B
Budget Authority				
Appropriation	24,000,000	24,850,423	850,423	D
Spending authority from offsetting collections				
Earned				
Collected		159,259	159,259	B
Change in receivables from Federal sources	-	174,852	174,852	B
Change in unfilled customer orders				
Advance received	-	-	-	
Without advance from Federal sources		16,027	16,027	B
Total Budget Authority	29,000,000	30,989,189	1,989,189	C, D
Permanently not available	-	(894,391)	(894,391)	A
Total Budgetary Resources	\$ 29,000,000	\$ 30,094,798	\$ 1,094,798	A, C, D
Status of Budgetary Resources:				
Obligations incurred:				
Direct	\$ 24,000,000	\$ 22,888,081	\$(1,111,911)	E
Reimbursable		419,030	419,030	B
Total Obligations incurred (Note 13)	24,000,000	23,307,111	(692,889)	B,E
Unobligated balance available:				
Apportioned	-	1,012,831	1,012,831	E
Total Unobligated balance available	-	1,012,831	1,012,831	E
Unobligated balance not available	6,000,000	5,774,857	(225,143)	B
Total Status of Budgetary Resources	\$ 30,000,000	\$ 30,094,798	\$ 94,798	B
Change in Obligated Balance:				
Obligated balance, net				
Unpaid obligations, brought forward, beginning of Fiscal Year	\$ 9,000,000	\$ 7,925,903	\$(1,074,097)	A, C, D
Less: Uncollected customer payments from Federal sources, brought forward, beginning of Fiscal Year	-	(166,263)	(166,263)	B
Total unpaid obligated balances, net	9,000,000	7,759,640	(1,240,360)	A, C, D
Obligations incurred, net	24,000,000	23,307,111	692,889	E
Less: Gross outlays	(24,000,000)	(23,972,337)	27,663	B
Less: Recoveries of prior year unpaid obligations, actual	-	(5,335)	(5,335)	B
Change in uncollected customer payments from Federal sources		(190,877)	(190,877)	B
Total unpaid obligated balance, net end of period	8,000,000	6,898,202	(1,101,798)	E
Obligated balance, net, end of period				
Unpaid obligations	8,000,000	7,255,343	(745,657)	E

**SELECTIVE SERVICE SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2007**

Less: Uncollected customer payments from Federal sources			(357,141)	(357,141)	B
Total, unpaid obligated balance, net, end of period	\$ 8,000,000	\$ 6,898,202	\$(1,101,798)		E
Net Outlays:					
Net Outlays					
Gross outlays	\$ 24,000,000	\$ 23,972,337	\$ (27,663)		B
Less: Offsetting collections			(159,258)	(159,258)	B
Net Outlays	\$ 24,000,000	\$ 23,813,079	\$ (186,921)		B

The Statement of Budgetary Resources has been prepared to coincide with the amounts shown in the President's Budget (Budget of the United States Government). The President's Budget with the estimated FY 2007 amounts was released on February 5, 2008, and the President's Budget with the FY 2007 actual amounts is estimated to be released in February 2008. This information can be found on the OMB website: www.whitehouse.gov/omb. As such, the actual amounts for 2007 have not been published at the time the financial statements were prepared and the estimated FY 2007 amounts have been used.

Budgetary resources and status of those resources presented in the Combined SBR for the period ended September 30, 2007, differ from the amounts presented as 2007 Estimates in the President's FY 2007 Budget. Following is an explanation of those reason codes from the table above:

- A. Expired Accounts
Differences relate to expired accounts being included in the Combined SBR, but not in the President's Budget.
- B. Differences primarily relate to rounding.
- C. Unobligated balances at beginning of fiscal year were incorrect.
- D. Appropriation amounts incorrect in President's Budget. Amount on SBR matches final SF132, Apportionment and Reapportionment Schedule, and final Treasury Appropriation Warrant for FY 2007.
- E. Deobligation adjustment in September 2007.

Appendix

FY 2007 Performance Chart Agencywide Annual Performance Results and Targets

Performance Measure	Objective	2003	2004	2005	2006	2007	2008
Systems test the Preparedness Functionality (Registrant Management, Claims/Appeals Processing, Alternative Service Management, Location Management, RFO Management, Board Member Management, etc.) with the results validating the design of the security and mobilization phases of the CRPP.*	1.1	-	-	-	-	Postponed	Postponed
Develop an evaluation that will test the automation, policy directives, and physical movement of individuals from the selection process through the transfer of responsibility to the Armed Forces.*	1.1	-	-	-	-	Postponed	Postponed
Plan an AO Mobilization Prototype Program Evaluation that will test mobilization personnel delivery systems and support programs. **	1.1	Develop	Replaced	Postponed	Postponed	Cancelled	-
Update and maintain the Agency Readiness Plans. **	1.2	Complete	Complete	Complete	Complete	Update	Maintain
Ensure that 90% of State Directors (SD) and (Reserve Force Officers RFO) are capable of implementing Registration Improvement Program functions and responsibilities. **	1.3	-	-	-	93%	-	-
Achieve training results indicating that 90% of SDs and RFOs are trained to predetermined standards.**	1.3	96%	96%	97%	93%	-	-
Ensure that 90% of assigned SDs and RFOs are trained. **	1.3	-	-	-	93%	-	-
Achieve distribution of 100% of updated training documents to SDs, RFOs, Uncompensated Personnel (Local, District Appeal, and National Appeal Board Members). **	1.4	-	-	-	100%	100%	Update
Attain a 96% or greater registration compliance rate for men ages 18 through 25 years of age.	1.2.1	91%	91%	93%	93%	NA	NA
Attain and appoint Registrars in 87% of the Nation's High Schools.	1.2.1	82%	84%	85%	87%	87%	NA
Obtain 86% of all registrations electronically.	1.2.2	70%	75%	79%	82%	83%	NA
Implementation of the SSS HCMP.	2.1.1	-	-	-	10%	90%	100%
Implementation of the Acquisition and Logistics Management Plan. *	2.1.2	-	-	-	-	10%	NA
Implementation of Financial Management IT Plans.*	2.2.1	-	-	-	-	10%	Complete
Complete Performance and Budget Integration.*	2.2.2	-	-	-	-	60%	Complete
By June 2006 – Develop, test, and Implement Agency COOP/Tele-work environments.*	2.3.1	-	-	-	Completed	-	-
By June 2006 – Complete proof of concept testing and development of migration plans to move off the mainframe at the Data Management Center. *	2.3.1	-	-	-	Completed	-	-

Performance Measure	Objective	2003	2004	2005	2006	2007	2008
By June 2007 – Design, develop, and implement plan of migration off mainframe. *	2.3.1	-	-	-	-	Develop	Complete
Capital Plan. June 2005 –Completion of Phase 1B of CRRP –Completed design, development and testing of Security Management, Single Sign On and Induction/Exam Orders Management portions of CRPP. Requirements completed for rest of the CRPP system.*	2.3.1	-	-	-	Completed	-	-
June 2006 (tentative) – Completion of Phase 2 of CRPP – Completed design, development and testing of rest of Mobilization Functionality (Registrant Management, Claim/Appeals Processing, Alternative Service Management, Location Management, RFO Management, Board Member Management, etc.) *	2.3.1	-	-	-	Postponed	Postponed	Postponed
Distribute quality public service advertising materials to every national media market and obtain public service air time in at least 90% of the major markets and 95% of all media markets.	2.4.1	-	-	-	-	100%	100%
Improve the turnaround times, in accordance with provisions of the Agency's Administrative Services Manual, for all types of responses: White House, congressional, media, internal customers, and the general public.***	2.4.2	+13%		39 days	25 days	15 days	8 days
<p>* New 1st year goal aligned with the objectives contained in the SSS FY 2006-2011 Strategic Plan.</p> <p>** Goal aligned with the last previous SSS Strategic Plan, FY 2001 – 2006.</p> <p>*** Objective 3.1 under the FY 2001 – 2006 is now included under this objective. The information contained in SSS Strategic Plan FY 2003 – 2006 of this chart reflects acknowledgement turnaround times. The information for FY 2007 is aligned with the goals contained in the SSS Strategic Plan FY 2006 – 2011.</p>							

Glossary of Abbreviations and Acronyms

Terminology

Area Office
Alternative Service Offices
Alternative Service Program
Annual Performance Plan
Central Registrant Processing Portal
Conscientious Objectors
Department of Defense
Department of Energy
Federal Information Security Management Act
Federal Managers' Financial Integrity Act
Government Accountability Office
Generally Accepted Accounting Principles
Government Performance and Results Act
Interactive Voice Response System
Information Technology
Human Capital Management Plan
Local Board
Local Board Member
Military Entrance Processing Station
National Business Center
Office of Management and Budget
Office of Personnel Management
Oracle Federal Financial
Performance and Accountability Report
Personally Identifiable Information
President's Management Agenda
Public and Intergovernmental Affairs
Reserve Force Officers
Selective Service System
State Directors
Strategic Plan

Acronym

AO
ASOs
ASP
APP
CRPP
COs
DoD
DoE
FISMA
FMFIA
GAO
GAAP
GPRA
IVR
IT
HCMP
LB
LBM
MEPS
NBC
OMB
OPM
OFF
PAR
PII
PMA
PIA
RFOs
SSS
SDs
SP





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