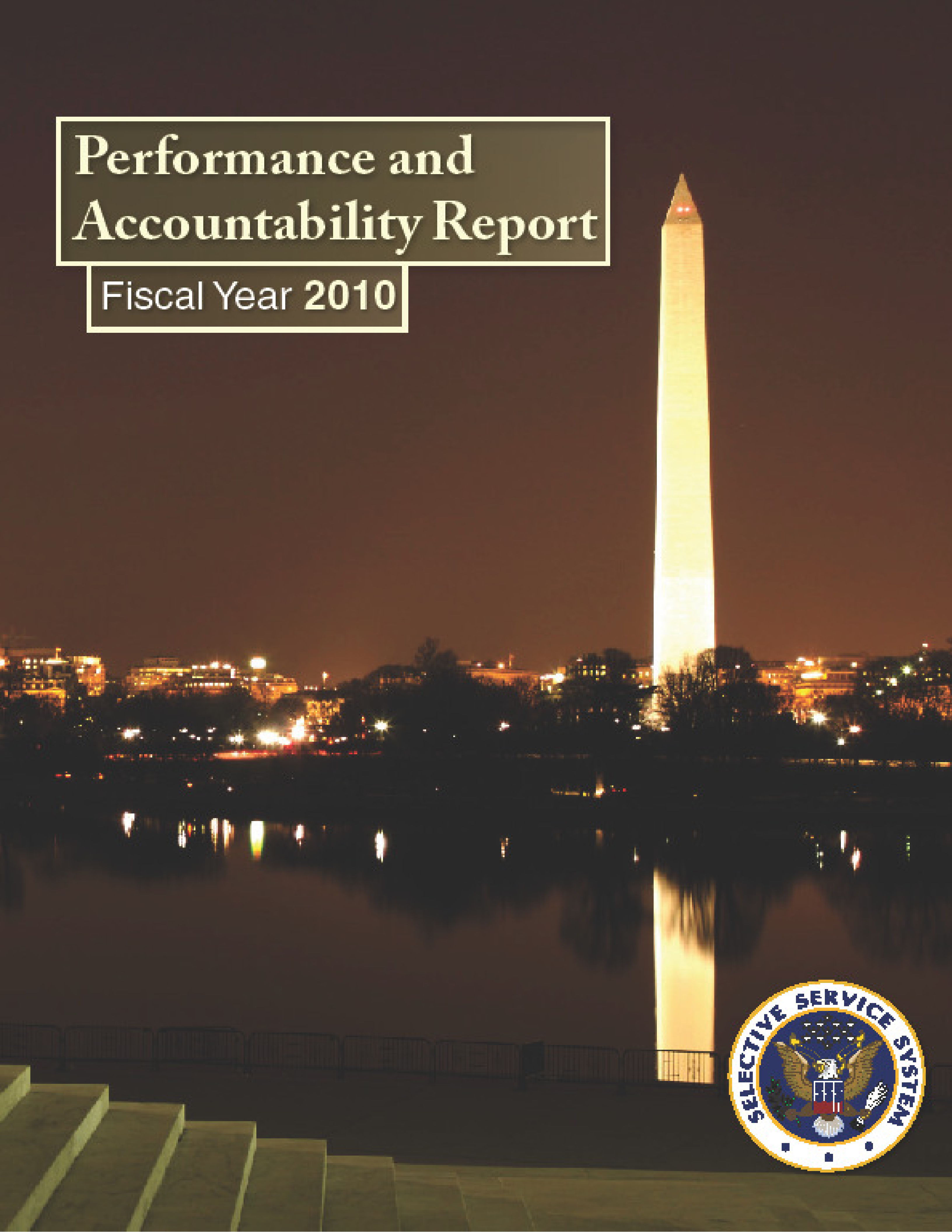
Performance and Accountability Report

Fiscal Year 2010



SELECTIVE SERVICE SYSTEM

Selective Service System

November 15, 2010

To obtain copies of this report,

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

Telephone:
1-800-877-8339 or
703-605-4100

Facsimile:
703-605-4106

Email:
Information@sss.gov or
fm-budget@sss.gov

Web:
http://www.sss.gov/public.htm

FROM THE DIRECTOR

The Selective Service System (SSS) documents responsibility and accountability through implementation of its Performance Budget, Strategic Plan, and this 2010 Performance and Accountability Report (PAR). The Agency reviewed and assessed program performance, in particular financial management systems, to guarantee that organizational stewardship is in accordance with the Government Performance and Accountability Act, the Government Management and Reform Act, and the Federal Managers' Financial Integrity Act.

I am pleased to report that, for the third year in a row, SSS received an unqualified financial audit opinion. The FY 2010 independent audit disclosed no material weaknesses and a remedial plan is underway to correct the non-material weaknesses.

The independent FY 2010 Federal Information Security Management Act (FISMA) audit provided a qualified assurance determination that SSS' IT security program still has three material weaknesses uncorrected. Soon after my arrival on December 4, 2010, I realigned a stand-alone IT Directorate and, on July 19th, I appointed a new CIO, who was designated the Senior Agency Official for Privacy. SSS has already devised a remedial plan to rectify all material weaknesses related to IT security before the end of FY 2011 to be in full compliance with all FISMA requirements. Of critical importance is the Registrant Compliance and Verification (RCV) project, which is being accelerated, in order to move with U.S. Military Entrance Processing Command off its mainframe computer to a smaller platform. One of the key facets of this project is that the vendor will bring our primary registration system into full compliance with all federally mandated security requirements.

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

Lawrence G. Romo

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Agency at a Glance

Mission

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

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

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

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

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

As the Agency embraces its traditional missions, it 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 policy-makers and available resources.

History

For more than 70 years, SSS and the registration requirement for America's young men have served as a backup system to provide manpower to the U.S. Armed Forces during times of national crisis. In 1940, SSS was established as an independent Federal agency, and since the conversion to an all-volunteer military in 1973, registration has continued uninterrupted since 1980.

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

Organization

SSS has a diverse composition of career employees, part-time military personnel, and private citizen volunteers dedicated to satisfy its statutory goals of peacetime registration and the capability to conduct conscription. The largest component of the Agency's workforce is the approximately 11,000 uncompensated civilian men and women who serve as volunteer Local, District, and National Appeal Board Members. When activated, these citizen volunteers will 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. Additionally, several thousand private citizens are participating in the SSS High School Registrar program and are authorized to administer and receive registrations from young men.

Performance Highlights

Goals Overview

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

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

Objective 1 – Strive to maintain acceptable registration compliance rates.

For CY 2009, the overall estimated registration compliance rate was 91 percent, the same as CY 2008, for men ages 18 through 25 who were required to be registered. For the 18 year of birth (YOB) group, the compliance rate was 69 percent, up two percent; the 19 YOB group remained the same at 87 percent; and the 20-25 YOB

Groups were 96 percent, also remaining the same. Eighty-six percent of all registrations for FY 2010 were received through electronic processes, a one percent gain over FY 2009. Thirty-three percent were from driver's license registrations, twenty-three percent from the Internet (www.sss.gov), and twenty-four percent from the Department of Education. In addition, compliance reminder mailings were sent to all 19 year old men to help improve the overall registration percentages.

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

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

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

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

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

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

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

Objective 1 -- World-Class Customer Service

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

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

SSS implemented the OPM-led projects for creating the electronic official personnel folder and improving the hiring process through the SWAT, End-2-End and Hiring Reform programs; SSS has had success with a 60 day hiring solution. The Human Capital Management Report and the annual HR Accountability Report were completed. The e-Quip security clearance program was implemented ahead of schedule and the rollout of the HSPD-12 identification card program was completed across the entire Agency, as was a complete property inventory. The Agency's first Strategic Sustainability Plan was created and environmental programs initiated, including better recycling and reduced flow faucets at National Headquarters. Based on results of the Employee Viewpoint Survey, senior leaders have made improved communications a top priority, together with an organizational realignment and reassignment of selected mangers/supervisors. The Agency developed and coordinated its High-Performance Goals with OMB, which resulted in increased support and worked with the military services to update Memoranda of Agreement regarding support provided by RFOs.

Objective 3 -- Efficient and effective financial management.

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

Objective 4 -- Efficient and effective Information Technology Management.

SSS continues a multi-year technology upgrade of the Agency's hardware, software, and systems development. The Agency continues to improve e-government and IT technological improvements including the OPEN.GOV initiative (where SSS' process was shared amongst small agencies as a model to follow), the cloud computing initiative (where SSS has already completed the "virtualization" of the IT infrastructure – well ahead of most agencies), and improved security that effectively rebuffed hundreds of thousands of Internet-based attacks each month, with no loss of network availability. The Agency moved its Internet connection to a Trusted Internet Connection (TIC) center as directed by OMB. This move greatly enhances data security by accessing the Internet through a Department of Homeland Security approved connection and brings the Agency closer to full compliance with OMB memorandum M-08-05.

The FY 2010 FISMA audit noted remedial actions underway by the newly assigned CIO to correct material shortfalls from previous reports. Additional security applications, policies and plans were implemented and updated successfully. Work remains to be done before the Agency will be fully compliant with all FISMA requirements. The current RCV project will replace two old registrant management and personnel management systems deemed too expensive to accredit. In view of the near completion of the migration off the MEPCOM mainframe, it is no longer economically practical to eliminate 2 of the 3 material weaknesses until we migrate off the mainframe. This is anticipated during FY2011.

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

The public and intergovernmental affairs activity faces the ongoing paradoxical challenge of public concern: a) the more communications made, the greater the public concern about an imminent draft; and, b) the less SSS says, the greater the amount of misinformation available. With over 6,000 young men turning 18 every day, our outreach to community leaders, other governmental and private entities, public and private influencers, and media was a major strategy during 2010 for increasing registration awareness and fostering public understanding of the Agency mission.

The Agency implemented a four-tier registration awareness campaign to include (1) radio, TV, and newspaper public service media messages; (2) high schools nationwide; (3) outreach Initiatives; and (4) social network development. During FY 2010, SSS distributed 19 English and Spanish radio public service announcements to 5,000 stations and received 96,538 airings, worth $6,070,554. Additionally, three radio and one television news announcements (English and Spanish) were released to thousands of media outlets. The Agency produced 25 "Tips for College" announcements with an SSS registration message for PBS outlets, television and cable outlets, and high school guidance counselors nationwide. In 2010, only the

PBS announcements were distributed. The remainder will be distributed in 2011 to other outlets and high school guidance counselors. Five SSS news stories, translated into English and Spanish, were distributed to 10,000 daily and weekly newspapers and more than a 1,000 minority Spanish and African-American newspapers. SSS distributed registration posters, newspaper ads, public address announcements and other collateral materials to 38,000 SSS High School Registrars and principals. SSS manned an exhibit at 24 of the Nation's leading community-based and educational annual meetings. In addition, SSS traveled to five low compliance cities and conducted 66 meetings with educators, media, immigrant services, churches, and social service organizations targeting the hard-to-reach immigrants and out-of-mainstream youth. SSS formalized its social network plan and developed its "Face Book" page, and "You Tube" site. SSS also had five PSA banner ads placed throughout the internet for three months as a test, resulting in more than 26,000 clicks for registration information.

Strategic Planning and Reporting

This Report is aligned with the SSS Strategic Plan (FY 2012 - 2017) and is an outgrowth of internal evaluations of Agency statutory responsibilities viewed in light of new challenges, fiscal issues, and the needs of Agency customers. Measurement of the Agency's institutional progress toward improved programmatic activities, service to customers, and the prudent management of fiscal resources is the basis for the development of this plan. Performance measurement, together with increasingly constrained resources, provides the path for assessing accountability between the Agency's long-term strategic vision and the day-to-day activities of its employees.

Planning and Funding Challenges

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

The primary operational focus of the Agency in peacetime is to register men, and all performance results continue to be accumulated toward that goal. This report endeavors to show how the FY 2010 budget allocation was expended in support of the Agency's Strategic Goals and Objectives.

Financial Highlights

Financial Position

FY 2010 is the seventh full year of operation where the SSS' audited financial statements are being submitted to OMB in compliance with the Accountability Act of Tax Dollars of 2002. The preparation of these statements is a part of the Agency's objective to improve financial management and provide accurate, reliable information for assessing performance and allocating resources.

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

Limitations of the Financial Statements

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

Discussion and Analysis of Financial Statements

SSS FY 2010 and 2009 financial statements report the Agency's financial position and results of operations on an accrual basis. These annual financial statements are comprised of a Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources, and related notes that provide a clear description of the Agency and its mission as well as the significant accounting policies used to develop the statements.

Consolidated Balance Sheet

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

ASSETS. Assets represent Agency resources that have future economic benefits. SSS' assets totaled $13.553 million in FY 2010. Fund balances with Treasury — mostly undisbursed cash balances from appropriated funds—comprised about 62 percent of the total assets.

SSS does not maintain any cash balances outside of the U.S. Treasury and does not have any revolving or trust funds. About 38 percent of SSS' assets were comprised of accounts receivables, which reflects funds owed to SSS by other Federal agencies and the public and general property, plant and equipment.

LIABILITIES. Liabilities are recognized when they are incurred regardless of whether or not they are covered by budgetary resources. In FY 2010, SSS had total liabilities of $6.448 million. The largest components of SSS' liabilities were accounts payable and Federal Employee Compensation Act (FECA) actuarial totaling $1.696 million and $2.579 million respectively. Accounts payable reflect funds owed primarily for contracts and other services.

NET POSITION. SSS' net position, which reflects the difference between assets and liabilities and represents the Agency's financial condition, totals $7.106 million. This amount is broken into two categories: unexpended appropriations (amounts related to undelivered orders and unobligated balances) at $5.956 million and cumulative results of operations (net results of operations since inception plus the cumulative amount of prior period adjustments) at $1.150 million***.***

Consolidated Statement of Net Cost

The Consolidated Statement of Net Cost represents the net cost to operate the Agency. Net costs are comprised of gross costs less earned revenues. SSS' FY 2010 net cost of operations was $23.617 million: $23.986 million in gross costs less $.369 million in earned revenues.

Consolidated Statement of Changes in Net Position

The Consolidated Statement of Changes in Net Position reports the changes in net position during the reporting period. SSS ended FY 2010 with a net position total of $7.106 million. The negative change in net position was primarily the result of the liabilities not covered by budgetary resources and other liabilities.

Combined Statement of Budgetary Resources

The Combined Statement of Budgetary Resources focuses on how budgetary resources (appropriations and reimbursables) made available, the status of those resources (obligated or unobligated) at the end of the reporting period, and the relationship between the budgetary resources and outlays (collections and disbursements). SSS' FY 2010 budgetary resources totaled $27.398 million and were primarily made up of budget authority funds $24.275 million and unobligated balance $2.330 million.

Financial Management

The Selective Service System's Financial Management Directorate overcame difficulties in unexpected staff shortage and was able to manage resources successfully in the area of financial reporting in FY 2010. For the third consecutive fiscal year, the Agency received again an unqualified audit opinion on financial statements, with no material weaknesses. The result of the auditor's test of compliance with laws and regulations also disclosed no instance of noncompliance with laws and regulations that is required to be reported. The Agency has made progress in the internal control over financial reporting and is continuing to document new effective and improving procedures in its Fiscal Manual.

The Agency completed implementation of eTravel program in FY 2010 for Two Regions and the DMC. This transitioned SSS travel-related activities to the automated E2 travel system and complete financial implementation with OFF will be in FY 2011. The E2 travel system provides an automated ticketing, reservation, and claims processing tool whereby employees are no longer required to submit paper travel authorizations and vouchers for reimbursement. Use of the E2 travel system has several benefits to include reduction of costs; increased compliance with the Federal Travel Regulations through electronic edits that were previously performed manually; and expedited reimbursement. In FY 2010, an additional step was added to the review process. FM must review authorizations and vouchers prior to being transmitted for obligation and reimbursement to ensure proper funding is utilized.

Director's Integrity Act Statement for Fiscal Year 2010

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

As of September 30, 2010, independent auditors conducted an assessment of the financial management systems and internal control over (1) the effectiveness/efficiency of operations and compliance with applicable laws and regulations, and (2) financial reporting including safeguarding assets and compliance with applicable laws and regulations, in accordance with the requirements of the Office of Management and Budget Circular A-123, "Management's Responsibility for Internal Control."

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

The FY 2010 independent audit of our IT security program determined that it was not in compliance with FISMA requirements. Two previously identified material weaknesses along with one previously identified weakness, which was re-classified as a material weakness, are still pending. These ongoing material weaknesses of several years standing along with a new material weakness are unacceptable. Under new IT management, SSS has already devised and is working a remedial plan to rectify these weaknesses before the end of FY 2011.

I am 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 efforts to upgrade the Agency's processes and talent pool. My focus is to achieve unblemished audits that indicate we are ready in all aspects to answer that call.

Lawrence G. Romo
November 15, 2010

Management Controls

Federal Managers' Financial Integrity Act Report on Management Control

Background

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

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

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

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

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

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

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

FY 2010 Results

At the beginning of FY 2010, SSS had two material weaknesses. During the FY 2010 FISMA audit two IT material weaknesses were re-identified along with one previously identified weakness, which was re-classified as a material weakness. SSS will not be able to fully pass all FISMA requirements until we migrate off of the mainframe. The audit provides a qualified assurance that SSS' system of internal control complies with FMFIA's objectives. The following Exhibit provides a summary of the material weaknesses and all items corrected.

Exhibit 1: Summary of Material Weaknesses

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

Required Reporting

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

Exhibit 2: Summary of Management Assurances

Effectiveness of Internal Control Over Financial Reporting (FMFIA 2)						
Statements of Assurance	**Unqualified**					
Material Weakness	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Controls Over Financial Management	0	0	0	0	0	0
Total Material Weaknesses	0	0	0	0	0	0

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

Outstanding Material Weakness

Two outstanding material weaknesses remained at the end of FY 2010: (1) Management of personal identifiable information (PII) data must be improved; and (2) the Agency must perform a certification and accreditation of its general support network.

New Material Weaknesses

The previously identified weakness, for continuity of operations, was re-classified as a material weakness at the end of FY2010.

IT Security Program

During the 2010 FISMA audit several issues were identified that represent material internal control weaknesses in the Agency's IT security program, certification and accreditation of the general support network, the continuity of operations plan and management of PII. Upon assignment of a new CIO, corrective action plans with measurable milestones to address and resolve these problems were developed and are underway. Most recommendations offered by the audit have been adopted by SSS and have been incorporated into FY 2010 and FY 2011 corrective approximately one-third of the tasks have been completed and-progress has been made with the remaining actions. We anticipate completing more than half of the tasks by the end of calendar year 2010 and most remaining tasks during NLT May 2011.

Summary of Outstanding Material Weaknesses

Material Weakness Existing	SSS IT Security Program 1. Improve PII management 2. Complete a C & A of the general support network 3. Complete a COOP plan
FY 2010 Accomplishments:	Planned Actions: Overall Estimated Completion Date: FY 2011
NA (None)	NA (Incorporated in FY 2010)
Planned Actions	
• IT security program under new management • Secure personal sensitive information data where possible • Complete COOP plan • Perform a C&A of the general support network	

President's Management Approach

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

The SSS' strategy is to utilize e-commerce initiatives to improve the Agency's procurement and financial processes through implementation of an integrated financial management system. The e-Quip and e-travel processes sponsored by OPM, continue to function properly. The SSS completed the implementation to meet the personnel identification and verification requirements of Homeland Security Presidential Directive-12 (HSPD-12) and completed the conversion to the electronic Official Personnel Folder process.

During FY 2010 SSS completed Phase 2 of the RCV project. This modernization effort puts the Agency on schedule to be off the mainframe by the end of FY 2011. The RCV will decrease operating and maintenance costs, ensure system security compliance with all Federal security and information technology requirements (FISMA, NIST, Clinger Cohen Act, Paperwork Reduction Act, etc.), increase the Agency's technical capabilities and allow seamless integration with external State and Federal systems as well as other systems throughout the Agency's Enterprise Architecture.

Utilizing the OFF System, the SSS continues to enhance its capability to develop methodologies that will help to ensure that the Agency is able to fully integrate its budget and performance data**.** A more refined method for allocating expenditures to strategic goals has been instituted.

PERFORMANCE DETAILS

Program Evaluation

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

Evaluations conducted during FY 2010

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

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

Program evaluations were scheduled and conducted for the following areas:

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

FY 2010 Performance

This FY 2010 PAR identifies the activities, strategies, and results that took place during the fiscal year to achieve Agency goals and objectives. It also identifies relevant performance measurement target goals to be achieved.

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

Objective 1 – Strive to maintain acceptable registration compliance rates.

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

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

Significant Activity:

By the end of FY 2010, 37 states (Alabama, Arizona, Arkansas, Colorado, Delaware, Florida, Georgia, Hawaii, Idaho, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, Maryland, Michigan, Minnesota, Mississippi, Missouri, Montana, Nevada, New Hampshire, New Mexico, New York, North Carolina, Ohio, Oklahoma, Rhode Island, South Carolina, South Dakota, Tennessee, Texas, Utah, Virginia, West Virginia, and Wisconsin), three territories (Guam, Northern Mariana Islands, and Virgin Islands), plus the District of Columbia, had enacted Driver's License Legislation (DLL) linked to the registration requirement. As a result, 782,724 men were registered under DLL in FY 2009.

For FY 2010, the SSS set two performance goals for Objective 2.

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

FY 2010 Annual Performance Goal: Attain registration rate above 90 percent for eligible males 18-25.

Was the goal achieved? Yes

Results:

Projected: 91 percent (18-25 YOB Groups). Results for this goal will not be available until the end of the Calendar Year. The latest information available is for calendar year (CY) 2009, the year group registration rate was 91 percent. (See note below)

Discussion:

Registration is a crucial component of any future induction or draft to furnish personnel to the Department of Defense. The primary factors contributing to registration compliance include: (1) the enactment and implementation in states and territories of DLL requiring registration with the SSS to obtain a motor vehicle driver's license or state identification card; (2) continued use of on-line registration via the SSS Web site (www.sss.gov), (3) emphasis on soliciting volunteer SSS High School Registrars; (4) mailings to those 19 year-old men who had not registered; (5) increased liaison with U.S. Postal Service offices – the only universal source of availability of Selective Service registration forms; and (6) focused, cost-effective registration awareness initiatives and outreach efforts to the educational and community leaders and groups. However, some of these important registration awareness initiatives/efforts had to be limited this FY due to funding constraints.

Impact:

For CY 2009, the Selective Service national overall registration compliance rate was 91 percent for men ages 18 through 25 who were required to be registered. This figure remained the same as the CY 2008 percentage. For the 18 year-of-birth (YOB) group, the compliance rate was 69 percent, up two percent from CY 2008; the 19 YOB group was 87 percent, remain the same; and the 20 to 25 YOB group, the draft-eligible groups, were 96 percent, remain the same.

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

Planned Actions/Schedule:

For FY 2011, primary registration improvement emphasis will continue to be 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. Thus, as states enact and implement Driver's License Legislation, in support of the registration requirement, the percentage of electronic registrations will increase, resulting in lower costs expended by the Agency for registration compliance.

Verification and Validation:

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

Strategic Objective 1.1.2. Maximize the use of electronic registration methods.

FY 2010 Annual Performance Goal: Obtain 83 percent of registrations electronically.

Was the goal achieved? Yes

Results:

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

Discussion:

Eighty-six percent of all registrations for FY 2010 were received through electronic means, up one percent from FY 2009. DLL, Internet registration at www.sss.gov, and data exchanges with various Federal agencies make up a significant portion of electronic registrations.

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

Verification and Validation:

Statistical reports that measure processing timelines and evaluates program results periodically.

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

Significant Activity:

During FY 2010, the SSS reviewed Memorandum of Agreements and met with MEPCOM and other DoD elements to discuss the interface between SSS' mission and MEPCOM. Additionally, SSS acquired updated lottery equipment to replace the outdated capsule/insert version with state-of-the-art lotto model machines and new laptops.

Strategic Objective 1.2.1 Be prepared to deliver personnel when needed.

<u>FY 2010 Annual Performance Goal</u>: Maintain the Agency's Readiness Plans which include the Call and Deliver, Reclassify, Alternative Service, and the Lottery Standard Operating Procedures.

Was the goal achieved? Yes

Results:

In the previous fiscal year, SSS completed a systematized project management effort to update the Agency's Preparedness Plans for use upon mobilization at the national, regional, state and local levels. In addition, the RIPS Manual was revised to help ensure the Agency is better prepared if ever called upon to initiate conscription. During FY 2010, all Plans and Manuals were reviewed to ensure currency and accuracy and also made available to all field elements in an electronic format via the Agency Intranet.

Discussion:

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

Impact:

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

Planned Actions/Schedule:

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

Verification and Validation:

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

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

<u>FY 2010 Annual Performance Goal</u>: Be prepared to activate State Headquarters, Area Offices, and SSS Board Members to timely, fairly and equitably process reclassification claims.

Was the goal achieved? Yes

Results:

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

Discussion:

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

Impact:

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

Planned Actions/Schedule:

Periodic updating training plans as necessary.

Verification and Validation:

Routine training evaluations are utilized to improve content delivery.

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

<u>FY 2010 Annual Performance Goal</u>: Increase membership in the Alternative Service Employer Network (ASEN) through initiatives undertaken by its State Directors and RFOs at the local level.

Was the goal achieved? Yes

Results:

The first addition to the ASEN in over twenty-five years was made in April of 2010 when the Selective Service signed an agreement with the Mennonite Mission Network. In any return to conscription, Alternative Service Worker (ASW) placements would be with Mennonite Voluntary Service, an agency of the Network and the Mennonite Church. Additional agreements were concluded with two other employers: Brethren Volunteer Service, an organ of the Church of the Brethren, and Christian Aid Ministries' Conservative Anabaptist Service Program (CASP). The three other agreements will hopefully provide upwards of 500 service placements. SSS has held annual electronic outreach sessions which are expanding the opportunities to interact at the local level.

Discussion:

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

The three current agreements are too few, but represent a significant step forward in readiness for this Program. A concerted effort must be exerted each year to ensure the ASEN is capable of providing the number of placements required to fulfill this second mission of the Selective Service System.

Impact:

The inability to add employers to the ASEN had severely crippled readiness of the ASP. Previous Selective Service Directors have not only declined to allow employer agreements to be negotiated, but refused to sign negotiated agreements once such negotiation was allowed. The addition of members to the ASEN in FY-2010 is a significant milestone in the history of the ASP and signals a renewed agency commitment to readiness to fulfill its second mission. Coupled with the agency's growing reputation for honesty and fairness among its CO-advocacy constituency, activities to enlarge the ASEN move the agency forward and ensure it is prepared to act as that vital national security insurance policy and at the same time, protector of the rights of those conscientiously opposed to participation in war.

Planned Actions/ Schedule:

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

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

Verification/Validation:

Management reports/program evaluations.

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

Objective 1: World Class Customer Service

SSS implemented technology upgrades of the Agency's hardware, software, security and systems development processes. Efforts continue to align and integrate human capital management, financial, operational, information technology, and logistical processes, including cost accounting that is based on strategic goals. Full implementation of the HSPD-12 identification card and the Electronic Official Personnel Folder were completed.

Objective 2: Efficient and effective resource and procurement management.

Strategic Objective 2: Improve the effectiveness and efficiency of human capital management.

For FY 2010, the SSS set two annual performance goals for Strategic Objective 2.1.1.

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

FY 2010 Annual Performance Goal: Complete implementation of the Strategic Human Capital Management plan.

Was the goal achieved? No

Results:

Although the HCMP has been published, full implementation remains. Results of the annual Federal Human Capital Survey necessitated a shift of limited resources and expertise to address employee satisfaction issues.

Discussion:

Full implementation of the HCMP requires resolution of recent issues with employee satisfaction concerns. The Agency implemented a focus group effort and conducted the CY09 employee survey to identify deeper issues of employee dissatisfaction and develop trend data. The results of the CY10 survey were received but have not yet been analyzed. The goal is to engage employees and determine/implement viable corrective action. Training efforts were focused on supervision and broader exposure, such as the Federally Employed Women training program. Efforts to evaluate the Individual Development Program were overcome by events and are planned for FY11. The Agency worked to fully implement the SWAT, End-2-End and Hiring Model initiatives championed by OPM. Analysis of the SSS hiring model indicated that the Agency's efforts are ahead of the general plan with the average time to hire less than 60 days vs. the OPM goal of 80 days. The electronic Official Personnel Folder was flawlessly implemented.

Impact:

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

Planned Actions/Schedule:

Continue to evolve improved hiring practices in concert with President Obama's May 2010 Hiring Reform mandate, to eliminate the requirement to address KSAs, inform applicants of the status of their applications throughout the hiring process, involve managers in process and hold them accountable, and utilize validated systems for recruiting.

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

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

Create and implement supporting programs such as Individual Development Plans.

Verification and Validation:

OPM was provided a copy of the Agency's HCMP for comment in 2007; approval pending. The Human Capital Management Report was submitted to OPM.

FY 2010 Annual Performance Goal: Complete implementation of the Homeland Security Presidential Directive (HSPD-12) initiative.

Was the goal achieved? Yes

Results:

The HSPD-12 identification card program was implemented Agency-wide in CY09. Integration with the IT security network and physical security has been partially implemented with computer log-on security and building access initiated. A complete shift to authentication using only the HSPD-12 card is underway. SSS coordinated with GSA and DoD to enable local access to create and activate the cards.

Discussion:

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

Impact:

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

Planned Actions/ Schedule:

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

Verification/Validation:

Employee feedback

Objective 3: **Efficient and effective financial management:**

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

A major focus for the entire agency is controlling costs. Our strategic and budgetary planning goals are more closely aligned than ever. They are integral to SSS' strategy of improving our efficiency by integrating budget and performance planning. The Agency is committed to achieving a "clean audit" opinion under the auspices of the Accountability of Tax Dollars Act of 2002. In accordance with the PMA, SSS will continue its implementation of an integrated financial management system; it has automated government travel under the eTravel concept, and improved the interface between financial processes and acquisition, logistics, and human capital management activities.

FY 2010 Annual Performance Goal: Continue updating the Fiscal Manual.

Was the goal achieved? No

Results:

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

Discussion:

Build the required structure to develop and execute a sound financial management plan that will serve as the basic cornerstone by which the Financial Management Division will perform its mission and functions.

Impact:

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

Planned Actions/Schedule:

The Fiscal Manual will be staffed, updated and comments to be incorporated in the revised/updated version during FY 2011.

Verification and Validation:

Once the Fiscal Manual has been completely updated a periodic review (at least annual) and update as necessary will be performed by the financial management.

Strategic Objective 2.3.2. Align budgeted funds with performance expectations.

FY 2010 Annual Performance Goal: Continue Performance and Budget integration.

Was the goal achieved? Yes

Results:

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

Discussion:

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

Impact:

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

Planned Actions/Schedule:

The FM staff worked closely with OFF systems staff to ensure accounting structure met the needs of the Agency. The financial system update was effective October 1, 2009. The revised accounting structure will be reviewed and aligned with the new Strategic Plan to ensure that the established Goals and Objectives are aligned with the requested funding in the Agency's annual budget request.

Verification and Validation:

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

Objective 4: Effective and efficient information technology management.

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

Information security continued to be a major focus during this fiscal year, and the Agency remains committed to securing and protecting personally identifiable information (PII) it receives from State Department of Motor Vehicles and other sources. SSS completed a project to enable secure connections between outside information sources delivering PII information. The Agency consolidated all external network connection and established an external network connection through a TICAP provider and now meets compliance with OMB Trusted Internet Connection (TIC) initiative. Also, the Agency's firewalls and intrusion prevention systems thwarted hundreds of thousands of network based attacks against the SSS' network.

The Agency installed additional intrusion detection and prevention devices to augment current security technologies it has in place. No security breaches occurred at SSS.

SSS has implemented virtualization technologies for over 80% of our network servers. This hardware was upgraded to better facilitate COOP requirements through improved resources and to better facilitate “cloud computing” – the Agency plans to test workstation virtualization with the goal of increasing network efficiency and management.
SSS also improved its remote access security and capability to meet Telework initiatives for government employees. This allows more employees to log on securely to access necessary network assets.

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

For FY 2010, the SSS set two performance goals for Strategic Objective 2.3.1.

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

FY 2010 Annual Performance Goal: Continue the development and implementation of the registration modernization.

Was the goal achieved? Yes

Results:

The Agency completed the development of initial data file services and search services of the current legacy registration mainframe system. This was the first time this effort has been accomplished in the Agency’s history. The detailed project plans and projected earned value management of the project for the next two fiscal years were also documented as well. As of the end of FY2010, phase two was completed and user acceptance testing was underway.

Discussion:

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

Impact:

The Agency now has initial data file services and search services requirements documented and coded for the new RCV system as well as the detailed project plans to procure the completion and implementation of the new system over the next two fiscal years, resources permitting.

Planned Actions/Schedule:

The project will continue its design and development phases in FY2011 and FY2012. At the end of FY2011, the Agency will be able to migrate off of the mainframe environment.

Verification and Validation:

Integration Testing, Acceptance Testing as well as Parallel Testing task are planned for FY2011-FY2012.

FY 2010 Annual Performance Goal: Ensure compliance with FISMA requirements and reporting tasks as well as protecting personal identification information entrusted to SSS.

Was the goal achieved? No

Results:

The FY 2010 FISMA audit re-identified two IT material weaknesses along with one previously identified weakness that was re-classified as a material weakness. Although a qualified audit opinion was obtained on the sections reviewed, additional work will be required to obtain full compliance with FISMA.

Discussion:

FISMA audits occur each year, and under new SSS and Information Technology leadership, special emphasis was placed upon the corrections of known deficiencies. Remedial action is already underway. The implementation of the FISMA compliant RCV system will eliminate/correct two of the three deficiencies identified by the external auditors.

Impact:

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

Planned Actions/Schedule:

Every effort is taken to correct deficiencies noted in the FISMA audit over several years. The FISMA compliant RCV system will also eliminate/correct two of three long standing deficiencies repeatedly identified by the external auditors. Phase three of the RCV project is scheduled for completion by the end of FY 2011. SSS signed an inter-agency agreement with the Bureau of Public Debt to address the remaining FISMA issues by FY 2011.

Verification and Validation:

N/A

Objective 5: Effective and efficient management of communications with the public.

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

Significant Activity:

During FY 2010, the Agency's Public and Intergovernmental Affairs staff responded to an increasing influx of inquiries, correspondence, and phone calls relating to one's registration status to qualify for assorted government benefits and programs. This was driven by the national economic situation, high rate of unemployment, and general movement to retrain and retool one's skills. Additionally, numerous news outlets both print and broadcast, contacted the SSS for general interviews or specific information.

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

Further, SSS distributed its new radio package, "Important Information for Young Men," with a compilation of 19 radio spot public service announcements in English and Spanish and announcer-read scripts for live radio public service announcements to all major media markets. However, no television public service announcements were produced or distributed again this year. SSS produced public service “news” messages for TV, radio and newspapers. We manned 24 national exhibits; participated in 66 outreach initiatives; and developed social media network internet tools promoting registration.

Finally, SSS High School Publicity Kit materials were distributed in November 2009 to more than 38,000 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.

<u>FY 2010 Annual Performance Goal</u>: Improve response times, in accordance with provisions of the Agency’s Administrative Services Manual, for all types of responses: White House, congressional, media, Freedom of Information Act and Privacy Act customers, registrants, and the general public.

Was the goal achieved? No

Results:

<u>Data Management Center</u> -
Registration Processing: Target 18 days; Actual: 19 days
Status Information Letters for Registrants: Target 15 days; Actual: 89 days
Compliance Mailings: Target 10 days; Actual: 20 days
Other Center Mailings: Target 10 days; Actual 35 days

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

Discussion:

Response times at the Data Management Center have improved significantly because the accumulated backlog (recent high of 137 days) is now declining (89 days as of end FY2010) due to an increase in servicing staff and more dedicated work hours including overtime. There is a national environment of greater personal verification; more men seek government job training; as baby boomers retire, greater numbers of men seek government employment with concomitant security clearances; as jobs become more complex, further education is necessary; and the number of men seeking U.S. naturalization continues to grow. While all these factors have caused an explosion in registration verification workload, staffing and scheduling solutions were implemented. Consequently, the sizeable workload is being serviced more timely and continues to be reduced.

Impact:

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

Planned Actions/Schedule:

Actively monitor workload for measurable changes; be prepared to adjust staffing and overtime hours.

Verification and Validation:

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

FINANCIAL DETAILS

Message from the Chief Financial Officer (CFO)

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

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

For the third year in a row I am pleased to report that as of September 30, 2010,In FY 2010, the independent auditors conducted an annual assessment of the Agency's financial management systems and internal control over (1) the effectiveness / efficiency of operations and compliance with applicable laws and regulations, and (2) financial reporting including safeguarding assets and compliance with applicable laws and regulations, in accordance with the requirements of the Office of Management and Budget Circular A-123, "Management's Responsibility for Internal Control."

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

Carlo Verdino

Overview of Financial Statements

Purpose of the financial statements:

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

SSS FY 2010 Financial Statements

Selective Service System
BALANCE SHEET
As of September 30, 2010 and 2009
(in dollars)

		2010		2009
Assets:				
Intragovernmental:				
Fund balance with Treasury (Note 2)	$	8,392,733	$	10,487,378
Total intragovernmental		8,392,733		10,487,378
Accounts receivable, net (Note 3)		9,712		22,371
General property, plant and equipment, net (Note 4)		5,150,921		3,483,548
Total assets	$	13,553,366	$	13,993,297
Liabilities				
Intragovernmental:				
Accounts payable (Notes 7)	$	848,225	$	891,398
Other				
Employer contributions and payroll taxes payable (Note 7)		131,499		102,196
Unfunded FECA liability (Notes 5, 6, and 7)		522,886		528,653
Total intragovernmental		1,502,610		1,522,247
Accounts payable (Note 7)		847,654		1,287,594
Federal employee and veteran benefits (Notes 5, 6, and 7)		2,579,475		2,605,032
Other				
Accrued funded payroll and leave (Note 7)		608,867		521,738
Employer contributions and payroll taxes payable		968		-
Unfunded leave (Notes 5 and 7)		908,031		868,893
Total liabilities		6,447,605		6,805,504
Net position:				
Unexpended appropriations - other funds		5,955,522		7,684,451
Cumulative results of operations - other funds		1,150,239		(496,658)
Total net position	$	7,105,761	$	7,187,793
Total liabilities and net position	$	13,553,366	$	13,993,297

The accompanying notes are an integral part of these statements.

SSS FY 2010 Financial Statements

Selective Service System
STATEMENT OF NET COST
For the years ended September 30, 2010 and 2009
(in dollars)

	2010	**2009**
Program costs:		
Gross costs (Note 9)	$ 23,986,263	$ 22,443,303
Less: earned revenue (Note 10)	(369,245)	(351,317)
Net program costs	23,617,018	22,091,986
Net cost of operations	$ 23,617,018	$ 22,091,986

The accompanying notes are an integral part of these statements.

SSS FY 2010 Financial Statements

Selective Service System
STATEMENT OF CHANGES IN NET POSITION
For the Years Ended September 30, 2010 and 2009
(in dollars)

	2010	2009
Cumulative Results of Operations:		
Beginning Balances	$ (645,035)	$ (2,329,056)
Adjustments:		
Corrections of errors	-	(71,455)
Beginning balance, as adjusted	(645,035)	(2,400,511)
Budgetary Financing Sources:		
Appropriations used	22,657,046	22,511,294
Other Financing Sources (Non-Exchange):		
Imputed financing	2,755,246	1,484,545
Other	-	-
Total Financing Sources	25,412,292	23,995,839
Net Cost of Operations	(23,617,018)	(22,091,986)
Net Change	1,795,274	1,903,853
Cumulative Results of Operations	**1,150,239**	**(496,658)**
Unexpended Appropriations:		
Beginning Balance	7,684,452	10,229,989
Adjustments:		
Corrections of errors	-	71,455
Beginning Balance, as adjusted	7,684,452	10,301,444
Budgetary Financing Sources:		
Appropriations received	24,275,000	22,000,000
Other adjustments	(3,346,884)	(2,105,697)
Appropriations Used	(22,657,046)	(22,511,295)
Total Budgetary Financing Resources	(1,728,930)	(2,616,992)
Total Unexpended Appropriations	5,955,522	7,684,452
Net Position	**7,105,761**	**7,187,793**

The accompanying notes are an integral part of these statements.

SSS FY 2010 Financial Statements

Selective Service System
STATEMENT OF BUDGETARY RESOURCES
For the Years Ended September 30, 2010 and 2009
(in dollars)

	2010
Budgetary Resources:	
Unobligated balance, brought forward, October 1:	$ 5,346,453
Recoveries of prior year unpaid obligations	748,972
Budget authority	
Appropriation	24,275,000
Spending authority from offsetting collections (gross)	
Earned	
Collected	374,759
Subtotal	30,745,184
Permanently not available	(3,346,884)
Total budgetary resources	$ 27,398,300
Status of Budgetary Resources:	
Obligations incurred:	
Direct	$ 24,699,074
Reimbursable	369,246
Subtotal	25,068,320
Unobligated balance:	
Apportioned	4,230
Subtotal	4,230
Unobligated balance not available	2,325,750
Total status of budgetary resources	27,398,300
Change in Obligated Balance:	
Obligated balance, net	
Unpaid obligations, brought forward, October 1	5,140,924
Total unpaid obligated balance, net	5,140,924
Obligations incurred, net	25,068,320
Gross outlays	(23,397,520)
Recoveries of prior-year unpaid obligations, actual	(748,972)
Obligated balance, net, end of period	
Unpaid obligations	6,062,752
Total, unpaid obligated balance, net end of period	6,062,752
Net Outlays:	
Gross outlays	23,397,520
Offsetting collections	(374,759)
Distributed offsetting receipts	-
Net outlays	23,022,761

The accompanying notes are an integral part of these statements.

SELECTIVE SERVICE SYSTEM

Footnotes to the Financial Statements

4th Quarter Fiscal Year 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Reporting Entity

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

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

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

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

(b) Basis of Accounting and Presentation

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

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

(*c) Budget Authority*

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

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

(d) Fund Balance with Treasury

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

(e) Accounts Receivable

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

(f) Property, Plant, and Equipment

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

(g) Accrued Liabilities and Accounts Payable

Accrued Liabilities and Accounts Payable represent a probable future outflow or other sacrifices of resources as a result of past transactions or events. Liabilities are recognized when incurred, regardless of whether they are covered by budgetary resources. Liabilities cannot be liquidated without legislation that provides resources to do so. Also, the government, acting in its sovereign capacity, can abrogate SSS liabilities. See Note 5 for information on "Liabilities Not Covered by Budgetary Resources" and Note 7 for information on Accounts Payable.

(h) Accrued Workers Compensation and Other Actuarial Liabilities

Federal Employees' Compensation Act (FECA) provides income and medical cost protection to cover federal civilian employees injured on the job, employees who have incurred a work-related injury or occupational disease, and to pay beneficiaries of employees whose deaths are attributable to job-related injuries or occupational disease. The FECA program is administered by the United States Department of Labor (DOL), which pays valid claims and subsequently seeks reimbursement from the Selective Service System for these paid claims. See Notes 6 and 7 for additional information.

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

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

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

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

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

Similar to federal retirement plans, OPM rather than the SSS, reports the liability for future payments to retired employees who participate in the Federal Employees Health Benefit Program (FEHBP) and the Federal Group Life Insurance Program (FEGLIP). SSS reports the full cost of providing other retirement benefits. The SSS also recognizes an expense and liability for other post employment benefits (OPEB), which includes all types of benefits provided to former or inactive (but not retired) employees, their beneficiaries, and covered dependents. During fiscal years 2010 and 2009, the cost factors relating to FEHBP were $5,906 and $5,756 respectively, per employee enrolled. During fiscal years 2010 and 2009, the cost factor relating to FEGLI was .02% of basic pay per employee enrolled. See Note 7 for additional information.

(j) Annual, Sick, and Other Leave

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

(k) Imputed Costs / Financing Sources

Federal Government entities often receive goods and services from other Federal Government entities without reimbursing the providing entity for all the related costs. These constitute subsidized costs which are recognized by the receiving entity. SSS recognized imputed costs and financing sources in fiscal years 2010 and 2009 to the extent directed by the OMB, such as: employees' pension, post-retirement health and life insurance benefits; other post-employment benefits for retired, terminated, and inactive employees, which include unemployment and workers compensation under the Federal Employees Compensation Act (FECA) and losses in litigation proceedings. In addition, SSS recognized imputed cost for services received from other Federal agencies without reimbursement; these services included office space for DMC and Region I and Reserve Force Officer (RFO) services from the U.S. Marine Corps Reserves and the U.S. Navy Reserves.

(l) Revenues and Other Financing Sources

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

(m) Use of Estimates

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

(n) Expired Accounts and Canceled Authority

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

NOTE 2 – FUND BALANCE WITH TREASURY

Fund Balance with Treasury consisted of the following at September 30, 2010 and 2009:

Fund Balance:	**2010**	**2009**
Appropriated Funds (General)	$ 8,392,733	$ 10,487,378
Total Fund Balance with Treasury	$ 8,392,733	$ 10,487,378
Status of Fund Balance with Treasury		
Unobligated Balance:		
Available	4,230	$ 5,114
Unavailable	2,325,751	5,341,339
Obligated Balance Not Yet Disbursed	6,062,752	5,140,925
Total Fund Balance with Treasury	$ 8,392,733	$ 10,487,378

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

NOTE 3 – ACCOUNTS RECEIVABLE, NET

Due from the Public, Net. Accounts receivable due from the Public generally is related to employee payroll debt. Substantial receivables related to current employees are considered to be collectible, as there is no credit risk. Allowance for doubtful accounts is used only in instances where an employee has separated duty prior to collection of their debt. Selective Service System takes its aged schedule of Accounts Receivable due from the Public and applies different rates, depending on the ages of the accounts receivable, to calculate allowances for uncollectible accounts. Selective Service System applies a 1% rate to the current uncollectible balances that are less than 366 days old, 7% to balances that are between 366 days and two years delinquent, and 100% to balances that are more than two years delinquent.

Accounts Receivable from the Public consists of the following:

(in dollars)	FY 2010	FY 2009
Accounts Receivable from the Public		
Current	16	22,371
1 - 180 Days Past Due	6,999	-
181 - 365 Days Past Due	2,724	-
1 to 2 Years Past Due	-	-
Over 2 Years Past Due	-	-
Total Billed Accounts Receivable - Public	9,739	22,371
Unbilled Accounts Receivable	-	-
Total Accounts Receivable - Public	9,739	22,371
Allowance for Doubtful Accounts - Public	(27)	-
Total Accounts Receivable - Public, Net	9,712	22,371

NOTE 4 – GENERAL PROPERTY, PLANT AND EQUIPMENT, NET

SSS policy is to capitalize individual purchases of property and equipment with a cost of $10,000 or more and a useful life of at least three years. The dollar threshold for capitalization of bulk purchases is $50,000. Assets are depreciated using straight-line method of depreciation with useful lives ranging from three to seven years. Additionally, internal use software development and acquisition costs of $10,000 or greater are capitalized as software development in progress until the development stage has been completed and the software successfully tested. Upon completion and testing, software development-in-progress costs are reclassified as internal use software costs and amortized using the straight-line method over the estimated useful life of seven years. Purchased commercial software that does not meet the capitalization criteria is expensed. Capitalized property and equipment, net of accumulated depreciation, consisted of the following as of September 30, 2010 and 2009:

	Useful Life	Acquisition Value	Accumulated Depreciation	2010 Net Book Value	2009 Net Book Value
Equipment	3 - 7 yrs	$ 461,397	$ (197,354)	$ 264,043	$ 404,874
Information Technology Software	3 yrs	986,026	(598,011)	388,016	408,457
Internal Use Software	7 yrs	4,498,861	-	4,498,862	2,670,217
		$ 5,946,284	$ (795,365)	$ 5,150,921	$ 3,483,548

NOTE 5 – LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

The liabilities on Selective Service System's Balance Sheet as of September 30, 2010, 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, 2010 and 2009 is as follows:

(a) Intragovernmental and with the Public

	2010	2009
Intragovernmental:		
Unfunded Payroll Liabilities	522,886	528,653
Total Intragovernmental	522,886	528,653
Federal Employee Benefits-FECA Actuarial Liability	2,579,475	2,605,032
Unfunded Annual Leave	908,031	868,893
Total Liabilities Not Covered by Budgetary Resources	$ 4,010,392	$ 4,002,578
Total Liabilities Covered by Budgetary Resources	2,437,213	2,802,926
Total Liabilities	$ 6,447,605	$ 6,805,504

(b) Other Information

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

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

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

NOTE 6 - FEDERAL EMPLOYEES' COMPENSATION ACT

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

For 2009, and again in 2010, SSS used estimates provided by DOL to report the FECA liability. This practice is consistent with the practices of other Federal agencies.

SSS recorded an estimated actuarial liability for future costs that represent the expected liability for approved compensation cases beyond the current fiscal year. This estimated actuarial liability of $2,579,475 and $2,605,032 as of September 30, 2010 and 2009, respectively, is reported on SSS' Balance Sheet. SSS also recorded a liability for amounts paid to claimants by DOL as of September 30, 2010 and September 30, 2009, of $522,886 and $528,653, respectively, but not yet reimbursed to DOL by SSS.

NOTE 7 – 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.

	2010	2009
Intergovernmental Liabilities		
FECA	522,886	528,653
Accounts Payable	848,225	891,398
Accrued Payroll	131,499	102,196
Subtotal Intergovernmental	1,502,610	1,522,247
Public Liabilities		
Accrued Funded Payroll Leave	608,867	521,738
Actuarial FECA	2,579,475	2,605,032
Accounts Payable	847,654	1,287,594
Other Liabilities	908,999	868,892
Subtotal Public	4,944,995	5,283,256
Total Liabilities	$ 6,447,605	$ 6,805,503

NOTE 8 – LEASES

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

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

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

Fiscal Year	2010	2009
2011	$ 741,436	$ 715,386
2012	$ 752,049	$ 702,858
2013	$ 762,862	$ 714,035
2014	$ 172,020	$ 83,958
2015	$ 94,023	$ -
2016	$ 23,506	$ -
Total Future Lease Payments	$ 2,545,896	$ 2,216,237

NOTE 9 – Intragovernmental Costs and Exchange Revenue

	2010	2009
Intragovernmental Costs	$ 8,710,278	$ 8,218,334
Public Costs	15,275,985	14,224,969
Total Program Costs	23,986,263	22,443,303
Intragovernmental Earned Revenue	369,245	351,317
Public Earned Revenue	-	-
Total Program Earned Revenue	$ 369,245	$ 351,317

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. Exchange revenues (See Note 10) are those that derive from transactions in which SSS is reimbursed for services performed for other Federal agencies.

NOTE 10 – EXCHANGE REVENUE

Statement of Federal Financial Accounting Standards (SFFAS) No. 7, Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting, defines exchange revenue as inflows of resources to a governmental entity that the entity has earned. They arise from exchange transactions that occur when each party to the transaction sacrifices value and receives value in return. Exchange revenue is earned for services provided to other government agencies through reimbursable agreements. SSS recovers the full cost of services. Amounts are earned at the time the expenditures are incurred against the reimbursable order. During fiscal years 2010 and 2009, SSS earned $369,245 and $351,317 under an agreement with the U.S. Department of Defense. The DoD reimburses SSS for the difference in postage cost between what SSS currently paid to mail Acknowledgments and what it would cost to include DoD materials in the SSS Acknowledgments. SSS is also reimbursed for the difference between what they were paying to lease equipment for the mailing and the increase in lease costs for the additional equipment necessary to insert the materials for DoD.

NOTE 11 – UNDELIVERED ORDERS AT THE END OF THE PERIOD

Undelivered orders are purchase orders issued by SSS during Fiscal Year 2010 or Fiscal Year 2009 that have not had delivery of required product or service as of September 30, 2010 or 2009, respectively. It is anticipated that these undelivered items will be provided in future periods and will require resources obligated during Fiscal Year 2010 or Fiscal Year 2009.

	2010	2009
Undelivered Orders	$3,625,542	$2,337,999
Total Undelivered Orders	$3,625,542	$2,337,999

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

SFFAS No. 7 calls for explanation of material differences between amounts reported in the Statement of Budgetary Resources (SBR) and the actual balances published in the Budget of the United States Government (President's Budget). The President's Budget with the actual FY 2009 amounts was released in February 2010, and the President's Budget with the FY 2010 amounts is estimated to be released in February 2011, and both can be located at the OMB Web site (*http://www.whitehouse.gov/omb*). As such, the actual amounts for FY 2010 in the President's Budget have not been published at the time these financial statements were prepared.

A comparison of FY 2009 Statement of Budgetary Resources to the President's Budget is shown in the following table:

FY 2009	Budgetary Resources (millions)	Obligations Incurred (millions)	Net Outlays (millions)
Combined Statement of Budgetary Resources	$ 28	$ 23	$ 22
Unobligated Balance Not Available 1	$ (5)	$ -	$ -
Total Adjusted Balance	$ 23	$ 23	$ 22
Budget of the U.S. Government	$ 26	$ 26	$ 22
Difference 2	$ (3)	$ (3)	$ -

1. Unobligated balances not available are not included in the amounts presented in the President's budget.
2. Differences are due to the failure of SSS to report fourth quarter budget data to Treasury.

NOTE 13 - RESTATEMENTS

SSS' fiscal year 2009 footnote number 11, Undelivered Orders, has been restated to correct an error made in calculating the amount of undelivered orders. SSS incorrectly included general ledger accounts that included unpaid delivered orders. The effect on the footnote is shown in the table below.

Footnote Number	Title	FY 2009 Reported	Effect of Restatement	Restated 2009
11	Undelivered Orders at the End of the Period	$5,140,925	($2,802,926)	$2,337,999

SSS has taken actions to establish additional controls over financial reporting to ensure that footnote disclosures are correctly prepared.

NOTE 14 – RECONCILIATION OF NET COST OF OPERATIONS (PROPRIETARY) TO BUDGET (FORMERLY THE STATEMENT OF FINANCING)

In fiscal year 2006 this reconciliation was presented as a fifth statement, the statement of financing. In accordance with OMB Circular A-136, revised September 2010, presentation requirement for this information is now a footnote disclosure. Details of the relationship between budgetary resources obligated and the net costs of operations for the fiscal year 2010 and fiscal year 2009 quarters ending September 30 are shown in the table below.

Reconciliation of Net Cost (Proprietary) to Budget
Fiscal Year 2010
(in dollars)

		2010	2009
Resources Used to Finance Activities			
Current Year Gross Obligations	$	25,068,319	22,995,369
Budgetary Resources from Offsetting Collections			
Spending Authority from Offsetting Collections			(1,003,088)
Earned			
Collected		(374,759)	
Recoveries of Prior Year Unpaid Obligations		(748,972)	
Other Financing Resources			
Imputed Financing Sources		2,755,246	1,484,545
Total Resources Used to Finance Activity		26,699,834	23,476,826
Resources Used to Finance Items Not Part of the Net Cost of Operations			
Budgetary Obligations and Resources not in the Net Cost of Operations			
Change in Undelivered Orders		(1,287,543)	525,436
Current Year Capitalized Purchases		(1,890,525)	(1,579,901)
Components of the Net Cost of Operations which do not Generate or Use Resources in the Reporting Period			
Revenues without Current Year Budgetary Effect			
Change in Non Federal Receivables		12,633	
Other Financing Sources Not in the Budget		(2,755,246)	
Costs without Current Year Budgetary Effect			
Depreciation and Amortization		210,185	208,879
Disposition of Assets		12,969	
Revaluation of Assets or Liabilities		-	(175,850)
Future Funded Expenses		33,373	33,562
Other		-	(396,966)
Imputed costs		2,755,246	
Bad Debt Expense		27	
Other Expenses Not Requiring Budgetary Resources		(173,935)	
Net Cost of Operations	**$**	**23,617,018**	**$ 22,091,986**

APPENDIX

FY 2010 Performance Chart

Agency-wide Annual Performance Results and Targets

		Actual	Actual	Actual	Actual	Actual	Target
Performance Goals	**Objective**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Maintain the Agency's Readiness Plans which include the Call and Deliver, Reclassify, Alternative Service, and the Lottery Standard Operating Procedures.	1.2.1	N/A	N/A	N/A	100%	100%	100%
Be prepared to activate State Headquarters, Area Offices, and SSS Board Members to timely, fairly and equitably process reclassification claims.	1.2.2	N/A	N/A	N/A	N/A	100%	100%
Increase membership in the Alternative Service Employer Network through initiatives undertaken by its State Directors and RFOs at the local level.	3.1.3	N/A	N/A	N/A	N/A	0%	50%
Attain registration rate above 90 percent for eligible males 18-25.	1.1.1	N/A	N/A	N/A	N/A	100%	100%
Obtain 83 percent of registrations electronically.	1.1.2	100%	100%	100%	100%	100%	100%
Complete implementation of the Strategic Human Capital Management plan..	2.2.1	N/A	30%	80%	85%	85%	95%
Complete implementation of the Homeland Security Presidential Directive (HSPD-12) initiative.	2.2.1	N/A	N/A	5%	5%	100%	100%
Update the Fiscal Manual.	2.3.3	N/A	10%	20%	60%	60%	100%
Implement additional internal controls within eTravel system	2.3.1	N/A	N/A	N/A	N/A	100%	100%
Continue Performance and Budget integration.	2.3.2	50%	60%	70%	75%	100%	100%
Continue the development and implementation of the registration modernization project.	2.4.1	N/A	**5%**	**7%**	**10%**	**25%**	**50%**
Ensure compliance with FISMA requirements and reporting tasks as well as protecting personal identification information entrusted to SSS.	2.4.1	N/A	**5%**	**7%**	**10%**	**25%**	**50%**

		Actual	Actual	Actual	Actual	Actual	Target
Performance Goals	**Objective**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
DMC: Improve response times, in accordance with provisions of the Agency's Administrative Services Manual, for all types of responses (SIL,Compliance receipts, Reg. processing, all other correspondence):	2.5.1	11.5 days	12 days	14 days	27 days	40.75days	15 days
PIA: White House, congressional, media, Freedom of Information Act and Privacy Act customers, registrants, and the general public.		16 days	10 days	10 days	8 days	2.7 days	2 days

GLOSSARY

Abbreviations and Acronyms

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

SELECTIVE SERVICE SYSTEM

Audit of Financial Statements

As of and for the Years Ended
September 30, 2010 and 2009

Submitted By

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

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Director, Selective Service System

Independent Auditor's Report

We have audited the balance sheets of the Selective Service System (SSS) as of September 30, 2010 and 2009, and the related statements of net cost, changes in net position, and budgetary resources (the financial statements) for the years then ended. The objective of our audits was to express an opinion on the fair presentation of those financial statements. In connection with our audit, we also considered the SSS's internal control over financial reporting and tested the SSS's compliance with certain provisions of applicable laws and regulations that could have a direct and material effect on its financial statements.

SUMMARY

As stated in our opinion on the financial statements, we found that the SSS's financial statements as of and for the years ended September 30, 2010 and 2009, are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America.

Our consideration of internal control would not necessarily disclose all deficiencies in internal control over financial reporting that might be material weaknesses under standards issued by the American Institute of Certified Public Accountants. However, our testing of internal control identified no material weaknesses in financial reporting. We did identify two significant deficiencies: one relating to internal controls over financial reporting, and another relating to the need for improvements in the agency's Information Technology (IT) security program.

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

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

OPINION ON THE FINANCIAL STATEMENTS

We have audited the accompanying balance sheets of the SSS as of September 30, 2010 and 2009, and the related statements of net cost, changes in net position, and budgetary resources for the years then ended.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position, net cost, changes in net position, and budgetary resources of the SSS as of and for the years ended September 30, 2010 and 2009, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 13 to the financial statements, the SSS restated its fiscal year 2009 financial statements. This restatement was necessary because the footnote relating to undelivered orders incorrectly included amounts for items that had already been received. The previously-issued auditor's report, dated November 12, 2009, is withdrawn and replaced by the auditor's report on the restated financial statements. A discussion of the internal control weakness that contributed to the misstatement is discussed later in this report.

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements of the SSS as of and for the years ended September 30, 2010 and 2009, in accordance with auditing standards generally accepted in the Unites States of America, we considered the SSS's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the SSS's internal control. Accordingly, we do not express an opinion on the effectiveness of the SSS's internal control.

Because of inherent limitations in internal controls, including the possibility of management override of controls, misstatements, losses, or noncompliance may nevertheless occur and not be detected. A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A 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.

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

FINDINGS AND RECOMMENDATIONS

1. Financial Reporting Controls Need Further Strengthening

SSS needs to further strengthen internal controls over financial reporting. As stated in prior years audit reports and again this year, controls were not effectively implemented to prevent errors in interim and year-end financial statements. We attributed this problem, in part, to the absence of personnel in key financial management positions. As a result, we identified presentation, posting, and reconciliation errors that impacted the financial statements provided for audit. Several of these errors if left uncorrected would have resulted in material misstatements in the SSS financial statements.

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

Details of the weaknesses identified during our audit are discussed below.

a. Preparation of Interim and Year-end Financial Statements

Our testing of interim and year-end financial statements presented for audit identified presentation and posting errors that materially impacted the financial statements. Had the errors not been corrected, they would have resulted in qualifications to the financial statements. Similar problems were reported in 2008 and prior years. The table below lists the errors noted in our audit of interim and year-end financial statements.

Financial Statement/ Footnote	Error	Amount
Statement of Net Cost – Interim	Some costs and revenues were not assigned to a program or should not have been included in the statement.	Not Material Amounts.
	Error made in calculation of imputed lease costs.	Approximately $300,000.
Statement of Net Cost – Final	Costs were understated due to an error made in a journal voucher calculating FECA actuarial liability.	Approximately $148,000.
Statement of Budgetary Resources – Interim	Cancelled funds were erroneously included in this statement's balances.	Over $5 million.
	Correct amounts not used in uncollected customer payments.	Approximately $143,000.
Statement of Changes in Net Position – Final	Opening balances of cumulative results of operations were different than the closing balance of the prior year due to an error in posting a journal voucher.	Approximately $148,000
Footnote 2 – FBWT Interim	Should agree with line items in SBR. However amounts in SBR and in this footnote did not agree.	Approximately $143,000.
Footnote 4 – PP&E Interim	Errors were made in capitalizing maintenance costs as leasehold improvements.	Not Material Amount.
	General ledger and subsidiary property records were not in agreement.	Unknown.
Footnote 11 – Final (2009)	Undelivered orders were misstated by inclusion of delivered orders.	Approximately $2.3 million.

As the above table demonstrates, a significant number of errors were made in the interim financial statements and footnotes. We provided our interim findings to SSS personnel who worked with its service provider to correct these problems. While the year-end statements were improved, our tests disclosed that additional errors had been made. These errors have all been corrected in the final financial statement presentation.

b. Controls over Journal Vouchers

As reported in prior years, we again found problems with controls over preparation, review and approval of journal vouchers. This weakness impacted 2010 financial management operations resulting in numerous errors in journal vouchers prepared by SSS personnel and its service provider. Details follow:

- Journal voucher Nos. 2010-21, 22, 24 and 29 were prepared to roll forward certain accounts from cancelled fiscal years. These journal vouchers incorrectly used general ledger account 7400, Prior Period Adjustments – Correction of Errors, to record these transactions. These incorrect entries would have materially misstated prior period cumulative results of operations in the financial statements. The general ledger accounts that should have been used were general ledger accounts 5720 and 5730 (Transfers). When we provided the correct postings to SSS personnel, they made the necessary corrections.

- Journal voucher No. 2010-01, which was processed as a topside adjustment to the 2009 financial statements, was intended to adjust Federal Employees Compensation Act (FECA) actuarial liability, was processed in error to 2010 budget year activity when it should have been processed to 2009,. This error resulted in misstatements on the 2010 Statement of Net Cost and Statement of Changes in Financial Position. When we provided this information to SSS personnel, they made the necessary corrections.

- Five journal vouchers prepared during the first nine months of the 2010 fiscal year were prepared to correct posting errors made in previous journal vouchers. It is critical that posting entries be thoroughly supported and reviewed, since a journal voucher bypasses posting model controls in the accounting system.

- Journal voucher Nos. 2010-14, 07, and 47 were erroneously posted without required entries that would have processed the property items into the fixed asset module, as required by the accounting system. As a result, the general ledger and fixed asset module did not reconcile, and accumulated depreciation was not correctly calculated for the interim financial statements. When we advised SSS personnel of this problem, they reconciled the property records and corrected the posting errors.

- Journal voucher Nos. 2010-35 and 12 incorrectly included entries into two accounts (8801 and 8802) that are used to prepare a footnote disclosure and provide other accounting information. These entries should not have been used when processing transactions that impact the 6600 series of accounts. SSS uses the 6600 series of accounts to transfer payroll and overhead expenses related to the agency's system development project into the internal use software in development account. When we advised SSS personnel of these problems, they took action to correct the posting errors.

- Journal voucher No. 2010-21 was prepared to correct errors made in posting an expense item to leasehold improvements. The journal voucher incorrectly posted the expense to general ledger account 7210- Loss on Disposal of Assets. This has caused an immaterial error in Footnote 14.

Journal vouchers bypass all posting controls in the accounting system therefore strong control processes are required when these documents are prepared in order to prevent posting errors. We discussed the need to strengthen the analysis, review and approval process related to journal voucher processing with SSS personnel. SSS personnel agreed that errors had been made, and advised that they have taken actions to further strengthen controls in this important area.

c. Reconciling Fund Balance with Treasury

Problems similar to those identified prior to 2009 relating to ineffective reconciliations of Fund Balance with Treasury (FBWT) have resurfaced during our audit of the 2010 financial statements. SSS personnel did not effectively follow Treasury's Financial Management Service (FMS) policies and procedures that require agencies to reconcile FBWT on a monthly basis. We attributed this problem to the absence of key personnel, and the need for improved supervisory oversight. As a result, differences totaling approximately $1 million existed between FMS records and SSS FBWT account balances from about October 2009 until January 2010.

FMS regulations provide that agencies must review FBWT accounts at least 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 performed tests of the SSS's FBWT reconciliation process, and noted that as of October 2009, a difference of $1,024,181.98 was identified in FACTSII[1] edits between FMS records and SSS's general ledger records. We reviewed SSS FBWT

[1] The Federal Agencies' Centralized Trial-Balance System (FACTS II) is a computer program that allows agencies to submit one set of accounting data. This data includes mostly budgetary information that is required for the Report on Budget Execution and Budgetary Resources (SF 133), the Year-End Closing Statement (FMS 2108), and much of the initial data that will appear in the prior year column of the Program and Financing (P&F) Schedule of the President's Budget.

reconciliations, and other related documentation for this period, and discussed this matter with SSS personnel in order to obtain an understanding of this difference. Records show that the agency had an approximately $62,000 reconciling item as of September 30, 2010, due to accounting errors made by SSS in preparing SF 224 submissions to Treasury. However, an additional accounting error in Treasury records showed an out-of-balance condition of approximately $1.024 million existed when SSS submitted its FACTSII reports to OMB. SSS records show the error continued for approximately four months, and varied in amount during this period until it had been reduced to approximately $813,000 by January 2010. SSS personnel processed adjustments to the FMS accounting system to correct this error. However, documentation we obtained from SSS attributed this to an FMS error. We do not believe that SSS could not correct such an error by processing an adjusted SF 224.

Discussions with SSS personnel and review of available records did not identify what actually caused this error, or what other errors were made that reduced the out-of-balance condition by about $200,000 ($1.024 million to $813,000). In addition, the SSS records did not provide documentation to support the adjustments of $813,665.23 SSS made on the agency's February 224 to force the two agency's balances into agreement. As of September 30, 2010, SSS and Treasury records show no out of balance condition.

d. Submission of SF 133 Reports to OMB

Because of an error in SSS's submission of year-end FACTSII data (see item c above); SSS was not able to submit the SF-133, *Report on Budget Execution and Budgetary Resources,* to OMB for the agency's September 30, 2009, financial activity. As a result of this problem, errors occurred in the information on the President's budget for 2009 (actual amounts), and differences existed between SSS's 2009 Statement of Budgetary Resources and the President's budget for 2009. As required by OMB A-136, SSS has discussed this error in its 2010 footnotes.

We also found problems with the 2010 SF-133, *Report on Budget Execution and Budgetary Resources*, for SSS. SSS's service provider, when attempting to correct the 2009 error, incorrectly reported 2009 fourth quarter activity as an approximately $4 million dollar adjustment to the opening unobligated balance. When we brought this error to the attention of SSS personnel, the agency's service provider corrected the SF 133 for 2010.

e. Financial Reporting Controls over Property, Plant & Equipment Needs Improvement

The General Ledger fixed asset and related depreciation balances did not reconcile with the asset and depreciation balances in the assets module of the accounting system when we tested the June 30 interim financial statements. This was caused by incorrect and/or missing adjusting entries were made by SSS personnel. Our audit tests found that capitalized assets were often not entered in the asset module during the same month the related invoices were processed which caused deprecation amounts to be incorrect. In addition, some purchases of capitalized property items were incorrectly coded with a non-capitalized property code resulting in misstatements of interim financial statements. The agency did not reconcile the resulting differences to determine what the correct asset and depreciation balances should have been until late in the fiscal year. In correspondence dated July 29, 2010, SSS's service provider stated that "This out of balance condition between the assets module and the GL (general ledger) was caused by SSS processing methodology" and "It is likely that the GL balances will have to be adjusted to reflect the true capitalized property balance."

We also noted that the general ledger trial balance incorrectly included in-house software development costs in the two Asset Memorandum Accounts, Accounts 8801 and 8802. However, when reclassifying payroll and overhead expenses for in-house software development costs, posting models do not include entries into the above accounts.

When we discussed these problems with SSS personnel, they corrected the problems for the year-end financial statements

f. Fiscal Manual Needs to be Completed

SSS's Fiscal Manual and related Agency Directives provide general guidance on funds control, and the processing of accounting transactions in the accounting system. However, the procedures do not fully meet the OMB and GAO requirements that agencies must document the process and controls used in the preparation of the annual financial statements, and other internal controls and operating processes. We attributed this problem, in part, to the absence of key staff during parts of 2010 fiscal year. As a result, SSS has not fully met OMB requirements, and the absence of these operating directives and internal controls contributed to the problems discussed in this report.

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

We were provided with the various updated and older sections of the agency's "Fiscal Manual" for our review, as part of the 2010 financial statement audit. One key section, "The Financial Statement Checklist" does not include sufficient detail of responsibilities and control processes to enable us to conclude that SSS met the OMB requirement in this area. The checklist does not note who is responsible for performing each comparison/verification included in the checklist, how the process will be performed and other key operational procedures. In addition, while the checklist includes several key elements, not all critical controls or processes are included. For example, the following key tasks are not discussed in the document:

- Key analyses between selected budgetary accounts and/or propriety accounts were not included as part of the control process included in the checklist. These controls identify relationship errors that impact various financial statement line items.
- Variance analyses and analysis of accounts for abnormal balances were not included in the checklist.
- Completion of GAO's checklists relating to federal reporting and disclosures, and checklist for federal accounting were not discussed.
- Controls to ensure that the amounts included in the PAR agree or reconcile to the financial statements and footnotes were not included.

In addition, the checklist discusses that Excel spreadsheets would be available to assist in the preparation statements. However, none were provided for the September 30, 2010, financial statements.

We analyzed other financial management directives, and noted that while a majority of the Fiscal Manual sections and the Finance Directives had been updated within the last several years, there were the following exceptions:

Fiscal Manual Chapter or Directive	Title	Last Updated
Chapter 4[2]	Voucher Examination & Related Fiscal Activities	December 1987
Chapter 5[3]	Accounting Records & Procedures	July 1987
300-3	Acceptance & Rejection of Purchased Goods & Services	March 1989

During our review of these documents, we noted that the policies and procedures relating to accounting and finance were not available in one central location. We found some of the documents were included on the SSS web-site as part the Fiscal Manual, other documents were on the web-site as

[2] Chapter 4 was updated May 2006, but only flow charts were completed.

[3] Chapter 5 was replaced with Accounting for Receivables and Collections, dated March 2009, but only included a table of contents and an outline of the chapters.

directives, and some documents not on the web-site were provided to us during our audit. We also noted that the Fiscal Manual on the SSS web-site had not been updated to reflect the numerous changes and updates we obtained during the audit. In addition, we noted that there was no documentation or processes relating to a managerial cost accounting system included in the manual. The manual should document its managerial cost accounting methodology and include key control areas such as the agency's processes for accumulating and reporting cost activities, assigning full costs to outputs, and complying with the inter-entity cost accounting requirements.

Recommendations

1. Ensure that all journal vouchers are supported by appropriate documentation that justifies the reason for the entry, the entries to be made, the budget year the entries are to be made to, and the amounts of the entries. Require all journal vouchers to be reviewed and approved by two levels of supervision.

2. Maintain logs of all journal vouchers and supporting documentation.

3. Develop for recurring type entries a "standard voucher" so that errors cannot be made in recurring type postings.

4. Ensure that the quality control processes followed by SSS in the preparation of its interim and year-end statements are strengthened.

5. Perform detailed analysis of the errors discussed in this audit report relating to the FBWT out-of-balance condition, and determine what, if any, actions are necessary. Document the results of this review for further audit.

6. Develop and implement controls to ensure that the process followed by SSS to reconcile its FBWT meets FMS requirements, and that actions are taken timely to correct any out-of-balance condition.

7. Maintain detailed supporting documentation showing the reasons for any out-of-balance condition, what actions were taken to research and correct the problem, and retain supporting documentation.

8. Develop controls that ensure that FACTSII transmissions are correct, and ensure supervisory approval of these documents are required.

9. Ensure through monthly reconciliations that the capital property accounts properly reflect the agency assets. Promptly identify and correct all PP&E posting errors and assure that controls so these issues will not impact accounting records.

10. Develop policies and procedures detailing responsibilities for preparation and update of fiscal manual and related financial management policies and directives, including establishment of required period for update.

11. Revise the financial statement checklist to address the issues discussed in this report.

12. Establish a time-phased corrective action plan to update the Fiscal Manual and agency financial management directives. Publish these directives and maintain them on the agency website. Update the manual to address the problems noted in this report.

13. Ensure that Treasury posting models are followed for all transactions posted to SSS's general ledger.

2. IT Security Controls

SSS's agency-wide IT security program needs to be strengthened in order to be in full compliance with the *Federal Information Systems Management Act* (FISMA). Our 2010 audit of SSS's compliance with FISMA requirements identified that the agency needs to perform more comprehensive risk assessments of its IT systems, develop risk-based security plans; annually assess the security controls in its systems, and perform required Certification and Accreditation (C&A) of its critical information systems. We also identified that SSS has not yet fully implemented required security over sensitive personally identifiable information (PII) data. Also, SSS's contingency planning for its mission critical system did not meet FISMA requirements. SSS has not completed significant portions of its Continuity of Operations Plan (COOP) relating to the Registration system and related operations. In addition, specific contingency plans for each major application and the general support system, required by NIST SP 800-34, have not been developed and/or tested.

Current SSS officials have recognized the need to address these problems and have initiated actions to address them by June 2011. Recommendations to address these issues were included in another report to SSS officials; therefore, we are making no recommendations on these conditions in this report.

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

COMPLIANCE WITH LAWS AND REGULATIONS

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

RESPONSIBILITIES

Management Responsibilities

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

Auditor Responsibilities

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

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

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

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

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

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

AGENCY RESPONSE

The Director, SSS, responded to the draft report in a memorandum dated November 9, 2010. The Director concurred with the report's findings and recommendations, and advised that the agency plans to take actions to address the problems noted in our report.

DISTRIBUTION

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

Leon Snead & Company, P.C.
November 12, 2010

Status of Prior Year Findings

Recommendation	**Status as of September 30, 2010**
Develop control procedures that require a second party review of the financial statements prior to providing the financial statements for audit.	Open
Develop a detailed financial statements checklist that would identify all critical actions involved in financial statements preparation and presentation.	Open

Appendix 2

THE DIRECTOR OF SELECTIVE SERVICE
Arlington, Virginia 22209-2425

November 09, 2010

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 November 08, 2010, I am enclosing the Selective Service System's responses to the Draft Audit Report for FY 2010. If you have any questions, please contact either Carlo Verdino, Chief Financial Officer, at 703-605-4022 or Dien-Hoa Nguyen, Accounting Officer, at 703-605-4018.

Sincerely,

Lawrence G. Romo

Enclosure

SELECTIVE SERVICE SYSTEM

Responses to Draft FY-2010 Audit Report

The Selective Service System acknowledges and accepts the unqualified opinion, findings and recommendations contained in the draft audit report dated November 10, 2010.
The Agency acknowledges and accepts the two significant deficiencies identified in the report. The Agency is developing corrective action plans to implement the Auditor's recommendations.

SUMMARY OF AUDITORS' FINDINGS:

The audit found that the Selective Service System's financial statements as of and for the years ended September 30, 2010 and 2009, are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America.
The audit identified no material weaknesses and two significant deficiencies relating to internal controls over financial reporting and the need for improvements in the Agency's IT security program.

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

FINDINGS AND RECOMMENDATIONS:

Significant Deficiency: Financial reporting controls need further strengthening.

Finding #1 - Interim and year-end financial statements and footnotes need to be prepared with accuracy and consistency.
Recommendations:

- Ensure that the quality control process followed by SSS in the preparation of its interim and year-end statements is strengthened.
- Develop a detailed compilation operational directive that will provide controls and operational processes to strengthen the financial statement preparation process.

SSS RESPONSE: Concur with the finding and recommendations. The Agency will follow OMB Circular A-136 in preparation for interim and year-end financial statements and footnotes, and GAO *Standards for Internal Control in the Federal Government* in documenting internal controls. The Agency will review and improve the Financial Statement Checklist with more specifics to meet OMB requirements in this area. The revised Financial Statement Checklist will address all issues discussed in the FY-2010 audit report. The Agency is planning on completing the GAO's Financial Audit Manual (FAM) Checklist, with FAM 2010 to be completed by March 31, 2011 and FAM 2020 to be completed by June 30, 2011. The Agency has prepared to perform monthly GL abnormal balance analysis, quarterly GL variance analysis and semi-annual statement line variance analysis. The Agency is in the process of reviewing all existing posting models in Oracle to ensure that SSS financial data and financial statements are SGL-compliant at the transaction level.

Finding #2 - Controls over Journal Vouchers need strengthening.
Recommendations:

- Maintain logs of all journal vouchers and supporting documentation.
- Ensure that all vouchers are supported by appropriate documentation, reviewed and approved by two levels of supervision.
- For recurring type entries, develop system vouchers to avoid errors.

SSS RESPONSE: Concur with the finding and recommendations. For the new fiscal year, the Agency has implemented a new procedure of preparing, reviewing, approving and maintaining audit trails for journal vouchers. Journal vouchers are prepared with appropriate justification, sufficient supporting documentation, T-account analysis (as needed), and references to USSGL transaction codes. All journal vouchers are reviewed and approved by two levels of supervision. The Agency maintains an annual log of journal vouchers, files and makes them readily available for examination. The Agency also reviews recurring type journal vouchers and considers having them automated, where applicable.

Finding #3 - Reconciling Fund Balance With Treasury needs improvement.
Recommendations:

- Develop and implement controls to ensure that FBWT reconciliation process meets Treasury's FMS requirements.
- Perform corrective actions to have any out-of-balance condition resolved in a timely manner.
- Maintain detailed supporting documentation showing the reasons for any out-of-balance conditions, what actions taken to research and correct the matter, and retain documentation of these actions.

SSS RESPONSE: Concur with the finding and recommendations. The Agency has prepared to reconcile FBWT on a monthly basis. Monthly reconciliation will be documented and filed. Out-of-balance conditions will be researched and corrected in a timely manner. The Agency will contact Treasury FMS to research and perform additional analysis of the out-of-balance errors discussed in the audit report to determine if further corrective actions are required.

Finding #4 - Interim and year-end SF-133 reports submitted to OMB need to be accurate and consistent with SBR.
Recommendations:

- Develop controls that ensure that FACTS transmissions are correct.
- Ensure that supervisory approval of FACTS transmissions is required.

SSS RESPONSE: Concur with the finding and recommendations. The Agency will institute senior level oversight and approval for FACTS transmissions.

Finding #5 - Financial reporting controls over Property, Plant & Equipment need strengthening.
Recommendations:

- Ensure through monthly reconciliation the capital property accounts properly reflect the Agency's assets.
- Promptly identify and correct PP&E posting errors.
- Strengthen internal control over financial reporting.

SSS RESPONSE: Concur with the finding and recommendations. The Agency will perform monthly reconciliation for PP&E to ensure that acquisition values and accumulated depreciation are tracked and properly reflecting in trial balance, and posting errors are identified and resolved in a timely manner. The Agency will take appropriate actions to ensure that journal vouchers relating to PP&E are SGL-compliant.

Finding #6 - Fiscal Manual needs to be updated and completed.
Recommendations:

- Develop policies and procedures detailing responsibilities for preparation and update of the Fiscal Manual and related financial management policies and directives, including establishment of required period for update.
- Establish a time-phased corrective action plan to update the Fiscal Manual and Agency's financial management. Publish these directives and maintain them on the Agency's website.

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

Significant Deficiency: IT security controls need further strengthening.

Finding #1 – The Agency needs to perform more comprehensive risk assessment of its IT systems, develop risk-based security plans that address National Institute of Science and Technologies (NIST) minimum security requirements, annually assess the security controls in its systems, and perform required Certification and Accreditation (C&A) of its critical information systems.

SSS RESPONSE: Concur with the finding and recommendations. SSS has contracted with the Bureau of Public Debt (BPD) to perform a C&A of its general support network, and it plans to contract with BPD to perform a C&A of the new RCV system before it comes online later this year. During FY2011, SSS and BPD will be updating documentation and strengthening security controls to fully implement all recommendations.

Finding #2 – The Agency has not yet fully implemented required security over sensitive personally identifiable information (PII) data.

SSS RESPONSE: Concur with finding. SSS has worked to improve PII management, but some work remains to be completed. The BPD contract mentioned above will address most of the remaining PII management issues, and when the new RCV system comes online, one other PII issue will be resolved. SSS anticipates resolving all PII issues later this year.

Finding #3 – The Agency's contingency planning for its mission critical system did not meet FISMA requirements. SSS has not completed significant portions of its Continuity of Operations Plan (COOP) relating to the Registration system and related operations. In addition, specific contingency plans for each major application and the general support system, required by NIST SP 800-34, have not been developed and/or tested.
Current the Agency has recognized the need to address these problems and has initiated actions to address them by June 2011. The audit report offers no additional recommendations on these matters.

SSS RESPONSE: Concur with finding. SSS has a plan to replicate network resources between National Headquarters and its Data Management Center – two geographically separated facilities. The Agency is currently working to build the needed infrastructure and plans to have it ready before the next FISMA audit. SSS anticipates this redundant network will satisfy the IT COOP requirements.

Selective Service System
BALANCE SHEET
As of September 30, 2010 and 2009
(in dollars)

	2010	2009
Assets:		
Intragovernmental:		
Fund balance with Treasury (Note 2)	$ 8,392,733	$ 10,487,378
Total intragovernmental	8,392,733	10,487,378
Accounts receivable, net (Note 3)	9,712	22,371
General property, plant and equipment, net (Note 4)	5,150,921	3,483,548
Total assets	$ 13,553,366	$ 13,993,297
Liabilities		
Intragovernmental:		
Accounts payable (Notes 7)	$ 848,225	$ 891,398
Other		
Employer contributions and payroll taxes payable (Note 7)	131,499	102,196
Unfunded FECA liability (Notes 5, 6, and 7)	522,886	528,653
Total intragovernmental	1,502,610	1,522,247
Accounts payable (Note 7)	847,654	1,287,594
Federal employee and veteran benefits (Notes 5, 6, and 7)	2,579,475	2,605,032
Other		
Accrued funded payroll and leave (Note 7)	608,867	521,738
Employer contributions and payroll taxes payable	968	-
Unfunded leave (Notes 5 and 7)	908,031	868,893
Total liabilities	6,447,605	6,805,504
Net position:		
Unexpended appropriations - other funds	5,955,522	7,684,451
Cumulative results of operations - other funds	1,150,239	(496,658)
Total net position	$ 7,105,761	$ 7,187,793
Total liabilities and net position	$ 13,553,366	$ 13,993,297

The accompanying notes are an integral part of these statements.

Selective Service System
STATEMENT OF NET COST
For the years ended September 30, 2010 and 2009
(in dollars)

Program costs:	**2010**	**2009**
Program A:		
Gross costs (Note 9)	$ 24,134,640	$ 22,443,303
Less: earned revenue (Note 10)	(369,245)	(351,317)
Net program costs	23,765,395	22,091,986
Net cost of operations	$ 23,765,395	$ 22,091,986

The accompanying notes are an integral part of these statements.

Selective Service System
STATEMENT OF CHANGES IN NET POSITION
For the Years Ended September 30, 2010 and 2009
(in dollars)

	2010	2009
Cumulative Results of Operations:		
Beginning Balances	$ (496,658)	$ (2,329,056)
Adjustments:		(71,455)
Beginning balance, as adjusted	(496,658)	(2,400,511)
Budgetary Financing Sources:		
Appropriations used	22,657,046	22,511,294
Other Financing Sources (Non-Exchange):		
Imputed financing	2,755,246	1,484,545
Other	-	-
Total Financing Sources	25,412,292	23,995,839
Net Cost of Operations	(23,765,395)	(22,091,986)
Net Change	1,646,897	1,903,853
Cumulative Results of Operations	**1,150,239**	**(496,658)**
Unexpended Appropriations:		
Beginning Balance	7,684,452	10,229,989
Adjustments:	-	71,455
Beginning Balance, as adjusted	7,684,452	10,301,444
Budgetary Financing Sources:		
Appropriations received	24,275,000	22,000,000
Other adjustments	(3,346,884)	(2,105,697)
Appropriations Used	(22,657,046)	(22,511,295)
Total Budgetary Financing Resources	(1,728,930)	(2,616,992)
Total Unexpended Appropriations	5,955,522	7,684,452
Net Position	**7,105,761**	**7,187,793**

The accompanying notes are an integral part of these statements.

Selective Service System
STATEMENT OF BUDGETARY RESOURCES
For the Years Ended September 30, 2010 and 2009
(in dollars)

	2010	2009
Budgetary Resources:		
Unobligated balance, brought forward, October 1:	$ 5,346,453	$ 7,444,431
Recoveries of prior year unpaid obligations	748,972	571,238
Budget authority		
Appropriation	24,275,000	22,000,000
Spending authority from offsetting collections (gross)		
Earned		
Collected	374,759	431,849
Subtotal	30,745,184	30,447,518
Permanently not available	(3,346,884)	(2,105,696)
Total budgetary resources	$ 27,398,300	$ 28,341,822
Program		
Status of Budgetary Resources:		
Obligations incurred:		
Direct	$ 24,699,074	$ 22,568,943
Reimbursable	369,246	426,426
Subtotal	25,068,320	22,995,369
Unobligated balance:		
Apportioned	4,230	5,114
Subtotal	4,230	5,114
Unobligated balance not available	2,325,750	5,341,339
Total status of budgetary resources	27,398,300	28,341,822
Change in Obligated Balance:		
Obligated balance, net		
Unpaid obligations, brought forward, October 1	5,140,924	4,695,059
Total unpaid obligated balance, net	5,140,924	4,695,059
Obligations incurred, net	25,068,320	22,995,369
Gross outlays	(23,397,520)	(21,978,266)
Recoveries of prior-year unpaid obligations, actual	(748,972)	(571,238)
Obligated balance, net, end of period		
Unpaid obligations	6,062,752	5,140,924
Total, unpaid obligated balance, net end of period	6,062,752	5,140,924
Net Outlays:		
Net Outlays:		
Gross outlays	23,397,520	21,978,266
Offsetting collections	(374,759)	(431,849)
Distributed offsetting receipts	-	-
Net outlays	23,022,761	21,546,417

The accompanying notes are an integral part of these statements.

SELECTIVE SERVICE SYSTEM

Footnotes to the Financial Statements
Fiscal Year 2010

SELECTIVE SERVICE SYSTEM
FOOTNOTES TO THE FINANCIAL STATEMENTS
Fiscal Year 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a)Reporting Entity

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

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

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

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

(b)Basis of Accounting and Presentation

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

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

(c)Budget Authority

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

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

(d)Fund Balance with Treasury

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

(e)Accounts Receivable

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

(f)Property, Plant, and Equipment

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

(g)Accrued Liabilities and Accounts Payable

Accrued Liabilities and Accounts Payable represent a probable future outflow or other sacrifices of resources as a result of past transactions or events. Liabilities are recognized when incurred, regardless of whether they are covered by budgetary resources. Liabilities cannot be liquidated without legislation that provides resources to do so. Also, the government, acting in its sovereign capacity, can abrogate SSS liabilities. See Note 5 for information on "Liabilities Not Covered by Budgetary Resources" and Note 7 for information on Accounts Payable.

(h)Accrued Workers Compensation and Other Actuarial Liabilities

Federal Employees' Compensation Act (FECA) provides income and medical cost protection to cover federal civilian employees injured on the job, employees who have incurred a work-related injury or occupational disease, and to pay beneficiaries of employees whose deaths are attributable to job-related injuries or occupational disease. The FECA program is administered by the United States Department of Labor (DOL), which pays valid claims and subsequently seeks reimbursement from the Selective Service System for these paid claims. See Notes 6 and 7 for additional information.

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

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

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

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

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

Similar to federal retirement plans, OPM rather than the SSS, reports the liability for future payments to retired employees who participate in the Federal Employees Health Benefit Program (FEHBP) and the Federal Group Life Insurance Program (FEGLIP). SSS reports the full cost of providing other retirement benefits. The SSS also recognizes an expense and liability for other post employment benefits (OPEB), which includes all types of benefits provided to former or inactive (but not retired) employees, their beneficiaries, and covered dependents. During fiscal years 2010 and 2009, the cost factors relating to FEHBP were $5,906 and $5,756 respectively, per employee enrolled. During fiscal years 2010 and 2009, the cost factor relating to FEGLI was .02% of basic pay per employee enrolled. See Note 7 for additional information.

(j)Annual, Sick, and Other Leave

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

(k)Imputed Costs/ Financing Sources

Federal Government entities often receive goods and services from other Federal Government entities without reimbursing the providing entity for all the related costs. These constitute subsidized costs which are recognized by the receiving entity. SSS recognized imputed costs and financing sources in fiscal years 2010 and 2009 to the extent directed by the OMB, such as: employees' pension, post-retirement health and life insurance benefits; other post-employment benefits for retired, terminated, and inactive employees, which include unemployment and workers compensation under the Federal Employees Compensation Act (FECA) and losses in litigation proceedings. In addition, SSS recognized imputed cost for services received from other Federal agencies without reimbursement; these services included office space for DMC and Region I and Reserve Force Officer (RFO) services from the U.S. Marine Corps Reserves and the U.S. Navy Reserves.

(l) Revenues and Other Financing Sources

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

(m)Use of Estimates

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

(n)Expired Accounts and Canceled Authority

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

NOTE 2 – FUND BALANCE WITH TREASURY

Fund Balance with Treasury consisted of the following at September 30, 2010 and 2009:

Fund Balance:	**2010**	**2009**
Appropriated Funds (General)	$ 8,392,733	$ 10,487,378
Total Fund Balance with Treasury	$ 8,392,733	$ 10,487,378
Status of Fund Balance with Treasury		
Unobligated Balance:		
Available	4,230	$ 5,114
Unavailable	2,325,751	5,341,339
Obligated Balance Not Yet Disbursed	6,062,752	5,140,925
Total Fund Balance with Treasury	$ 8,392,733	$ 10,487,378

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

NOTE 3 – ACCOUNTS RECEIVABLE, NET

Due from the Public, Net. Accounts receivable due from the Public generally is related to employee payroll debt. Substantial receivables related to current employees are considered to be collectible, as there is no credit risk. Allowance for doubtful accounts is used only in instances where an employee has separated from duty prior to collection of their debt. Selective Service System takes its aged schedule of Accounts Receivable due from the Public and applies different rates, depending on the ages of the accounts receivable, to calculate allowances for uncollectible accounts. Selective Service System applies a 1% rate to the current uncollectible balances that are less than 366 days old, 7% to balances that are between 366 days and two years delinquent, and 100% to balances that are more than two years delinquent.

Accounts Receivable from the Public consists of the following:

(in dollars)	FY 2010	FY 2009
Accounts Receivable from the Public		
Current	16	22,371
1 - 180 Days Past Due	6,999	-
181 - 365 Days Past Due	2,724	-
1 to 2 Years Past Due	-	-
Over 2 Years Past Due	-	-
Total Billed Accounts Receivable - Public	9,739	22,371
Unbilled Accounts Receivable	-	-
Total Accounts Receivable - Public	9,739	22,371
Allowance for Doubtful Accounts - Public	(27)	-
Total Accounts Receivable - Public, Net	9,712	22,371

NOTE 4 – GENERAL PROPERTY, PLANT AND EQUIPMENT, NET

SSS policy is to capitalize individual purchases of property and equipment with a cost of $10,000 or more and a useful life of at least three years. The dollar threshold for capitalization of bulk purchases is $50,000. Assets are depreciated using straight-line method of depreciation with useful lives ranging from three to seven years. Additionally, internal use software development and acquisition costs of $10,000 or greater are capitalized as software development in progress until the development stage has been completed and the software successfully tested. Upon completion and testing, software development-in-progress costs are reclassified as internal use software costs and amortized using the straight-line method over the estimated useful life of seven years. Purchased commercial software that does not meet the capitalization criteria is expensed. Capitalized property and equipment, net of accumulated depreciation, consisted of the following as of September 30, 2010 and 2009:

	Useful Life	Acquisition Value	Accumulated Depreciation	2010 Net Book Value	2009 Net Book Value
Equipment	3 - 7 yrs	$ 461,397	$ (197,354)	$ 264,043	$ 404,874
Information Technology Software	3 yrs	986,026	(598,011)	388,016	408,457
Internal Use Software	7 yrs	4,498,861	-	4,498,862	2,670,217
		$ 5,946,284	$ (795,365)	$ 5,150,921	$ 3,483,548

NOTE 5 – LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

The liabilities on Selective Service System's Balance Sheet as of September 30, 2010, 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, 2010 and 2009 is as follows:

(a) Intragovernmental and with the Public

	2010	2009
Intragovernmental:		
Unfunded Payroll Liabilities	522,886	528,653
Total Intragovernmental	522,886	528,653
Federal Employee Benefits-FECA Actuarial Liability	2,579,475	2,605,032
Unfunded Annual Leave	908,031	868,893
Total Liabilities Not Covered by Budgetary Resources	$ 4,010,392	$ 4,002,578
Total Liabilities Covered by Budgetary Resources	2,437,213	2,802,926
Total Liabilities	$ 6,447,605	$ 6,805,504

(b) Other Information

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

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

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

NOTE 6 - FEDERAL EMPLOYEES' COMPENSATION ACT

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

For 2009, and again in 2010, SSS used estimates provided by DOL to report the FECA liability. This practice is consistent with the practices of other Federal agencies.

SSS recorded an estimated actuarial liability for future costs that represent the expected liability for approved compensation cases beyond the current fiscal year. This estimated actuarial liability of $2,579,475 and $2,605,032 as of September 30, 2010 and 2009, respectively, is reported on SSS' Balance Sheet. SSS also recorded a liability for amounts paid to claimants by DOL as of September 30, 2010 and September 30, 2009, of $522,886 and $528,653, respectively, but not yet reimbursed to DOL by SSS.

NOTE 7 – 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.

	2010	2009
Intergovernmental Liabilities		
FECA	522,886	528,653
Accounts Payable	848,225	891,398
Accrued Payroll	131,499	102,196
Subtotal Intergovernmental	1,502,610	1,522,247
Public Liabilities		
Accrued Funded Payroll Leave	608,867	521,738
Actuarial FECA	2,579,475	2,605,032
Accounts Payable	847,654	1,287,594
Other Liabilities	908,999	868,892
Subtotal Public	4,944,995	5,283,256
Total Liabilities	$ 6,447,605	$ 6,805,503

NOTE 8 – LEASES

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

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

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

Fiscal Year	2010	2009
2011	$ 741,436	$ 715,386
2012	$ 752,049	$ 702,858
2013	$ 762,862	$ 714,035
2014	$ 172,020	$ 83,958
2015	$ 94,023	$ -
2016	$ 23,506	$ -
Total Future Lease Payments	$ 2,545,896	$ 2,216,237

NOTE 9 – Intragovernmental Costs and Exchange Revenue

	2010	2009
Intragovernmental Costs	$ 8,710,278	$ 8,218,334
Public Costs	15,424,362	14,224,969
Total Program Costs	24,134,640	22,443,303
Intragovernmental Earned Revenue	369,245	351,317
Public Earned Revenue	-	-
Total Program Earned Revenue	$ 369,245	$ 351,317

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. Exchange revenues (See Note 10) are those that derive from transactions in which SSS is reimbursed for services performed for other Federal agencies.

NOTE 10 – EXCHANGE REVENUE

The Statement of Federal Financial Accounting Standards (SFFAS) No. 7, Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting, defines exchange revenue as inflows of resources to a governmental entity that the entity has earned. They arise from exchange transactions that occur when each party to the transaction sacrifices value and receives value in return. Exchange revenue is earned for services provided to other government agencies through reimbursable agreements. SSS recovers the full cost of services. Amounts are earned at the time the expenditures are incurred against the reimbursable order. During fiscal years 2010 and 2009, SSS earned $369,245 and $351,317 under an agreement with the U.S. Department of Defense. The DoD reimburses SSS for the difference in postage cost between what SSS currently paid to mail Acknowledgments and what it would cost to include DoD materials in the SSS Acknowledgments. SSS is also reimbursed for the difference between what they were paying to lease equipment for the mailing and the increase in lease costs for the additional equipment necessary to insert the materials for DoD.

NOTE 11 – UNDELIVERED ORDERS AT THE END OF THE PERIOD

Undelivered orders are purchase orders issued by SSS during Fiscal Year 2010 or Fiscal Year 2009 that have not had delivery of required product or service as of September 30, 2010 or 2009, respectively. It is anticipated that these undelivered items will be provided in future periods and will require resources obligated during Fiscal Year 2010 or Fiscal Year 2009.

	2010	2009 Restated
Undelivered Orders	$3,625,542	$2,337,999
Total Undelivered Orders	$3,625,542	$2,337,999

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

SFFAS No. 7 calls for explanation of material differences between amounts reported in the Statement of Budgetary Resources (SBR) and the actual balances published in the Budget of the United States Government (President's Budget). The President's Budget with the actual FY 2009 amounts was released in February 2010, and the President's Budget with the FY 2010 amounts is estimated to be released in February 2011, and both can be located at the OMB Web site (*http://www.whitehouse.gov/omb*). As such, the actual amounts for FY 2010 in the President's Budget have not been published at the time these financial statements were prepared.

A comparison of FY 2009 Statement of Budgetary Resources to the President's Budget is shown in the following table:

FY 2009	Budgetary Resources (millions)	Obligations Incurred (millions)	Net Outlays (millions)
Combined Statement of Budgetary Resources	$ 28	$ 23	$ 22
Unobligated Balance Not Available 1	$ (5)	$ -	$ -
Total Adjusted Balance	$ 23	$ 23	$ 22
Budget of the U.S. Government	$ 26	$ 26	$ 22
Difference 2	$ (3)	$ (3)	$ -

1. Unobligated balances not available is not included in the amounts presented in the President's budget.
2. Differences are due to the failure of SSS to report fourth quarter budget data to Treasury.

NOTE 13 - RESTATEMENTS

SSS's fiscal year 2009 footnote number 11, Undelivered Orders, has been restated to correct an error made in calculating the amount of undelivered orders. SSS incorrectly included general ledger accounts that included unpaid delivered orders. The effect on the footnote is shown in the table below.

Footnote Number	Title	FY 2009 Reported	Effect of Restatement	Restated 2009
11	Undelivered Orders at the End of the Period	$5,140,925	($2,802,926)	$2,337,999

SSS has taken actions to establish additional controls over financial reporting to ensure that footnote disclosures are correctly prepared.

NOTE 14 – RECONCILIATION OF NET COST OF OPERATIONS (PROPRIETARY) TO BUDGET (FORMERLY THE STATEMENT OF FINANCING)

In fiscal year 2006 this reconciliation was presented as a fifth statement, the statement of financing. In accordance with OMB Circular A-136, revised September 2010, presentation requirement for this information is now a footnote disclosure. Details of the relationship between budgetary resources obligated and the net costs of operations for the fiscal year 2010 and fiscal year 2009 quarters ending September 30 are shown in the table below.

Reconciliation of Net Cost (Proprietary) to Budget
Fiscal Year 2010

(in dollars)

	2010	2009
Resources Used to Finance Activities		
Current Year Gross Obligations	$ 25,068,319	22,995,369
Budgetary Resources from Offsetting Collections		
Spending Authority from Offsetting Collections		(1,003,088)
Earned		
Collected	(374,759)	
Recoveries of Prior Year Unpaid Obligations	(748,972)	
Other Financing Resources		
Imputed Financing Sources	2,755,246	1,484,545
Total Resources Used to Finance Activity	26,699,834	23,476,826
Resources Used to Finance Items Not Part of the Net Cost of Operations		
Budgetary Obligations and Resources not in the Net Cost of Operations		
Change in Undelivered Orders	(1,287,543)	525,436
Current Year Capitalized Purchases	(1,890,525)	(1,579,901)
Components of the Net Cost of Operations which do not Generate or Use Resources in the Reporting Period		
Revenues without Current Year Budgetary Effect		
Change in Non Federal Receivables	12,633	
Other Financing Sources Not in the Budget	(2,755,246)	
Costs without Current Year Budgetary Effect		
Depreciation and Amortization	210,185	208,879
Disposition of Assets	12,969	
Revaluation of Assets or Liabilities	-	(175,850)
Future Funded Expenses	33,373	33,562
Other	-	(396,966)
Imputed costs	2,755,246	
Bad Debt Expense	27	
Other Expenses Not Requiring Budgetary Resources	(25,558)	
Net Cost of Operations	**$ 23,765,395**	**$ 22,091,986**