United States

Merit Systems Protection Board

Performance and Accountability Report

for

Fiscal Year 2007

November 15, 2007

Forward

The Merit Systems Protection Board (MSPB) presents its Performance and Accountability Report (PAR) for fiscal year 2007. This report contains the annual audited financial statement required by the Accountability of Tax Dollars Act (ATDA) and the annual performance report required by the Government Performance and Results Act (GPRA). The financial accountability report section of the PAR also includes the annual report on internal controls required by the Federal Managers' Financial Integrity Act (FMFIA).

The PAR has been prepared in accordance with guidance provided by the Office of Management and Budget (OMB) and other sources. The MSPB PAR for FY 2007 was prepared by Government employees, except for the audit which was conducted by independent auditors. MSPB will duplicate and bind copies of the FY 2007 PAR sufficient for the November 15, 2007 distribution to the President, OMB and Congress, and will make the PAR available in electronic form on the MSPB Website (www.mspb.gov). The PAR will be printed at a later date and copies may be ordered from the Clerk of the Board, Merit Systems Protection Board, 1615 M Street, NW, Washington, DC 20419.

We invite our customers and stakeholders to provide comments to improve this report. Please send comments to:

Merit Systems Protection Board
ATTN: Comments on the PAR for FY 2007
1615 M Street, NW
Washington, DC 20419

Toll free: 1-800-209-8960
Fax: 202-653-7130
e-mail: mspb@mspb.gov

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The Merit Systems Protection Board
Performance and Accountability Report
for Fiscal Year 2007

Message from the Chairman

I am pleased to submit the FY 2007 Performance and Accountability Report (PAR) for the Merit Systems Protection Board. MSPB met or exceeded all of its performance goals and received a clean audit of its financial statements for FY 2007. These achievements reflect the expertise and dedication of our employees, with whom Vice Chairman Mary M. Rose, Member Barbara J. Sapin and I are proud to serve.

MSPB's role as the independent, bipartisan protector of the merit systems under which Federal employees work is essential to ensuring the American people that their Federal civil servants are well qualified to perform their work and able to effectively serve the public. MSPB has two statutory functions – to provide for independent adjudication of appeals of personnel actions for over 2 million Federal employees; and to conduct studies of the merit systems and other Federal management issues to ensure that employees are managed effectively and efficiently, in accordance with the merit principles, and free from prohibited personnel practices.

FY 2007 was a very successful year for MSPB. MSPB's regional, field and headquarters offices continued to achieve the targets for timely processing of initial appeals and petitions for review (PFR) while maintaining the high quality of those decisions. In addition, MSPB continued to effectively use alternative dispute resolution procedures to resolve appeals, when appropriate. We completed seven merit systems study reports and published four editions of the *Issues of Merit* newsletter. We continue to effectively manage our human capital, information management, and other support programs as evidenced by our selection as the second "Best Places to Work in the Federal Government" among small agencies, and the achievement of a clean audit of our financial statements for the fifth successive year. These results are reported in detail in the program performance and financial accountability sections of this report.

The most significant FY 2007 trends or issues affecting MSPB's ability to carry out its mission to protect the Federal merit systems include: changes and developments in management flexibilities, employee protections, and appeals processing; changing demographics of the Federal workforce; possible reductions in Federal spending; and changes in MSPB staff and leadership positions. In particular, this year was marked by continued implementation of portions of the Departments of Homeland Security (DHS) and Defense (DoD) personnel systems. At the same time, other portions of these systems are being redesigned or are being litigated in the Courts. Regardless of the outcome of the litigation, the new systems will likely require establishing new legal precedents that will affect our adjudicatory function and will make our studies role more complex. The MSPB is committed to meeting these challenges by ensuring we use effective and efficient processes and retaining the experienced staff we need to accomplish our work.

Finally, this report provides a variety of legally required assurances regarding our performance and financial data, management controls, and financial systems. In accordance with law and OMB guidance, I have determined that the performance and financial data included in this report are complete and reliable. All data reported were obtained from final FY 2007 statistical reports from the agency's case management system, final FY 2007 financial reports and reports submitted by the agency's program managers. There are no material inadequacies or non-conformances in either the completeness or reliability of the performance or financial data. In addition, following an assessment of MSPB's comprehensive management control program, I certify, with reasonable assurance, that MSPB's systems of accounting and internal control are in compliance with the provisions of the Federal Managers' Financial Integrity Act.

Respectfully,

Neil A. G. McPhie
Chairman

November 15, 2007

Management Discussion and Analysis

About the Merit Systems Protection Board

The MSPB Mission

The mission of the Merit Systems Protection Board is:

To protect Federal merit systems and the rights of individuals within those systems.

The MSPB carries out its statutory responsibilities and authorities primarily by adjudicating individual employee appeals and by conducting merit systems studies. In addition, MSPB reviews the significant actions of the Office of Personnel Management to assess the degree to which those actions may impact merit.

Board Organization

MSPB is divided into several functional offices organized according to its statutory missions to adjudicate appeals and conduct merit systems studies, and the functions required to support these missions. In addition to its three appointed Board members, MSPB has approximately 225 employees assigned to headquarters and to its eight regional and field offices located throughout the United States.

The **Board Members** adjudicate the cases brought to MSPB. The **Chairman**, by statute, is the chief executive and administrative officer of MSPB. Office heads report to the Chairman through the Chief of Staff.

The **Office of the Administrative Law Judge (ALJ)** adjudicates and issues initial decisions in corrective and disciplinary action complaints (including Hatch Act complaints) brought by the Special Counsel, proposed agency actions against administrative law judges, MSPB employee appeals, and other cases assigned by MSPB. (The functions of this office are currently performed by administrative law judges at the National Labor Relations Board under an interagency agreement.)

The **Office of Appeals Counsel (OAC)** conducts legal research and prepares proposed decisions for the Board in cases where a party petitions for review of an administrative judge's (AJ's) initial decision and in most other cases decided by the Board. The office conducts MSPB's petition for review settlement program, prepares proposed decisions on interlocutory appeals of rulings made by judges, makes recommendations on reopening cases on the Board's own motion, and provides research and policy memoranda to the Board on legal issues.

The **Office of the Clerk of the Board (OCB)** receives and processes cases filed at MSPB headquarters, rules on certain procedural matters, and issues MSPB's decisions and orders. The office serves as MSPB's public information center, coordinates media relations, produces public information publications, operates MSPB's library and on-line information services, and administers the Freedom of Information Act and Privacy Act programs. The office also certifies official records to the courts and Federal administrative agencies, and manages MSPB's records and directives systems, legal research programs, and the Government in the Sunshine Act program.

The **Office of Equal Employment Opportunity (EEO)** plans, implements and evaluates MSPB's equal employment opportunity programs. It processes complaints of alleged discrimination and furnishes advice and assistance on affirmative action initiatives to MSPB's managers and supervisors.

The **Office of Financial and Administrative Management (FAM)** administers the budget, accounting, travel, time and attendance, human resources, procurement, property management, physical security, and general services functions of MSPB. It develops and coordinates internal management programs and projects, including review of internal controls agency-wide. It also administers the agency's cross-servicing agreements with the U.S. Department of Agriculture National Finance Center for payroll services, the Department of the Treasury Bureau of the Public Debt for accounting services, and the U.S. Department of Agriculture Animal Plant and Health Inspection Services for human resources management services.

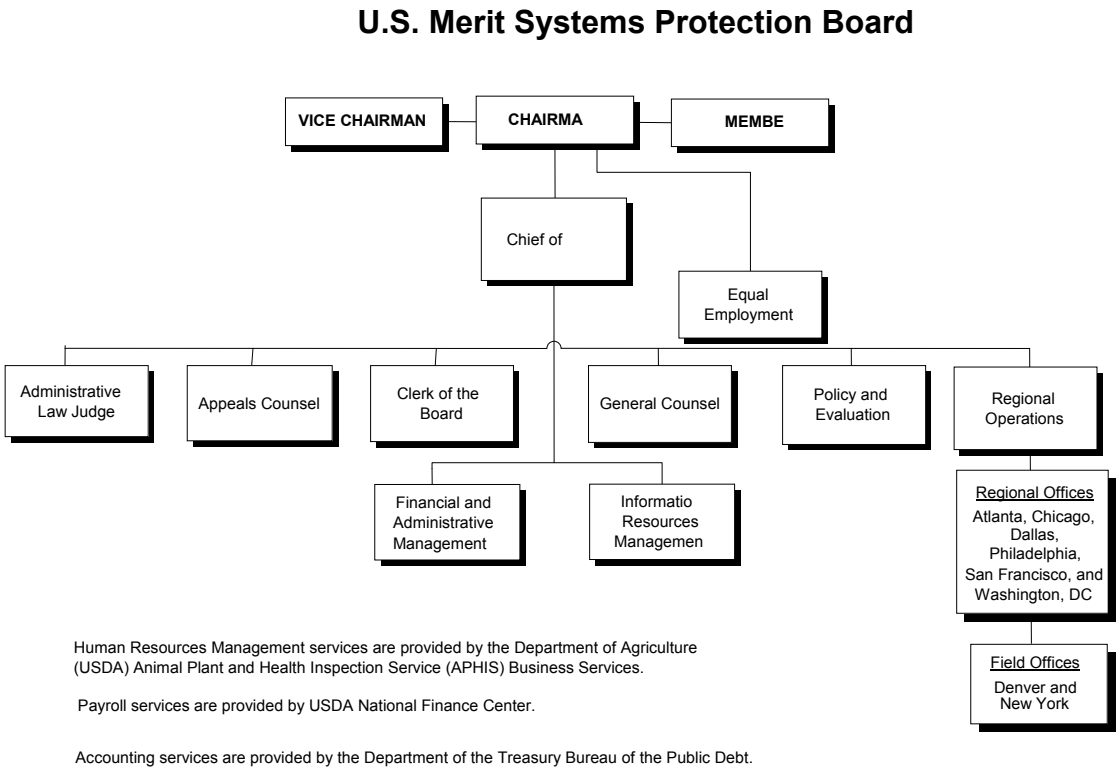
The **Office of the General Counsel (OGC)**, as legal counsel to MSPB, advises the Board and MSPB offices on a wide range of legal matters arising from day-to-day operations. The office represents MSPB in litigation, prepares proposed decisions for the Board on compliance cases, requests to review OPM regulations and other assigned cases, and coordinates MSPB's legislative policy and congressional relations functions. The office also drafts regulations, conducts MSPB's ethics program, and plans and directs audits and investigations.

The **Office of Information Resources Management (IRM)** develops, implements and maintains MSPB's automated information systems to help the agency manage its caseload efficiently and carry out its administrative and research responsibilities.

The **Office of Policy and Evaluation (OPE)** carries out MSPB's statutory responsibility to conduct special studies of the civil service and other Federal merit systems. Reports of these studies are directed to the President and the Congress and are distributed to a national audience. The office provides information and advice to Federal agencies on issues that have been the subject of MSPB studies. OPE also conducts special projects for the MSPB and has responsibility for preparing the MSPB's plans and reports required by the Government Performance and Results Act (GPRA).

The **Office of Regional Operations (ORO)** oversees MSPB's six regional and two field offices, which receive and process appeals and related cases, and manages MSPB's mediation appeals program (MAP). Administrative judges (AJs) in the regional and field offices are responsible for adjudicating assigned cases and for issuing fair and well-reasoned initial decisions.

Organization Chart



Performance Goals and Results

The MSPB Performance Plan for FY 2007 consisted of eleven performance goals associated with the three strategic goals described in the agency's Strategic Plan for FY 2007 - 2012. The MSPB exceeded or met all of its eleven performance goals. Highlights of our program performance for FY 2007 are presented here and detailed performance information is available in the program performance section.[1]

Strategic Plan Goal 1- Adjudication

MSPB met all five adjudication performance goals, and exceeded two of the ten adjudication performance measures in FY 2007. In FY 2007, MSPB received 7,625 appeals and completed or processed 7,979 appeals (including initial appeals, PFRs and addendum cases). The average processing time for PFRs exceeded the target by 12 percent (132 days compared to 150 days), and the combined settlement rate (including initial appeals and PFRs) exceeded the target value by 12 percent (56% compared to 50%). The FY 2007 targets for the remaining eight adjudication measures were met or were within 4 percent of their targets. MSPB continued to produce high quality, timely decisions and processed cases cost-effectively. MSPB also used alternative dispute resolution

[1] The performance goals and targets for FY 2007 are those described in the MSPB Performance Budget for Fiscal 2008 submitted to the Congress on February 5, 2007. The performance goals, measures and/or targets for FY 2008 have been revised, and may be adjusted further based on action taken on the FY 2008 budget and other factors. The Final Performance Plan for FY 2008 will be completed by December 31, 2007.

procedures effectively and received helpful feedback from customers. In FY 2008, we will measure and report the settlement rates for initial appeals and PFRs separately. In addition, in FY 2008 we will add a measure for timeliness of enforcement case processing at headquarters. The FY 2008 targets for the remaining performance measures will be maintained at FY 2007 levels.

Strategic Plan Goal 2 - Merit Systems Studies

MSPB met all three merit systems studies performance goals and exceeded one of four performance measures. MSPB completed seven reports (17 percent more than the target) and submitted two additional reports for final approval. Study reports continue to be referenced in academia and the media. The remaining performance measures were met. Customer feedback about our reports was used to develop our new research agenda for FY 2007 – 2010, which was approved by the Board. MSPB successfully began administration of the FY 2007 MPS, which included assisting several agencies in meeting their annual employee survey requirement. MSPB also successfully began administration of another Governmentwide survey on the career advancement issues of Federal employees. In FY 2008, MSPB plans to complete 6 studies and 4 editions of the newsletter. In addition, MSPB plans to report the results of the 2007 MPS and continue to monitor the impact and usefulness of our reports.

Strategic Plan Goal 3 - Management Support and Organizational Excellence

MSPB met all three of its management support and organizational excellence performance goals and exceeded the target for two of nine performance measures. MSPB was recognized as one the "Best Places to Work in Government," achieving the second highest ranking among small agencies. The percent of initial appeals filed electronically was exceeded by 16 percent (29% compared to 25%) and the FY 2007 target for the percent of internal technical support tickets (requests) resolved within one business day was exceeded by 10 percent (88% compared to 80%). The FY 2007 targets for the other seven performance measures were met, highlighted by achieving an unqualified opinion on MSPB's financial audit for the fifth successive year, and receiving provisional certification of MSPB's SES Performance Appraisal System. The FY 2008 targets for MSPB's human resources, information management and other internal programs reflect our intent to maintain or increase performance over that obtained in FY 2007. In addition, in FY 2008, MSPB will add a measure involving enhancing the agency's mission through a diverse workforce.

Financial Statements

As of September 30, 2007, the financial condition of the MSPB was sound with sufficient funds to meet program needs and adequate controls of these funds in place to ensure that obligations did not exceed budget authority. The MSPB prepared its financial statements in accordance with accounting standards codified in *Statements of Federal Accounting Standards* and OMB Circular A-136, *Financial Reporting Requirements.*

The Program and Financing Schedule shows the dollar and full-time equivalent (FTE) resources devoted to each of the three MSPB strategic goals which are aligned with our budget activities. It shows actual spending for fiscal years 2006 and 2007, and projected spending for fiscal 2008.

Summary by Budget Activity (Dollars In Thousands)						
	2006		2007		2008 (projected)	
Budget Activity	**FTE**	**Amt**	**FTE**	**Amt**	**FTE**	**Amt**
Adjudication	184	29,434	185	29,962	198	32,147
Merit System Studies	12	1,721	12	1,953	12	1,830
Management Support	29	3,884	28	3,938	26	3,530
Total Appropriated	225	35,039	225	35,853	236	37,507
Trust Fund Limitation	*	2,579		2,603	-	2,579
Total Available	225	37,618	225	38,456	236	40,086

In FY 2007, about 85 percent of the agency's resources were spent on the adjudication function, which processed approximately 8,100 appeals during the fiscal year. About 5 percent of our resources were devoted to the merit system study function which conducts studies of the Federal personnel system and makes recommendations for improvements. In addition, about 10 percent of our resources were spent on management support, which provides the necessary administrative support to the agency as well as the development and implementation of information technology improvements, such as the President's management agenda item on e-government.

The principle financial statements report MSPB's financial position and results of operations pursuant to requirements of 31 U.S.C. 3515(b). The statements have been prepared from MSPB's books and records in accordance with U.S. generally accepted accounting principles for Federal entities and the formats prescribed by OMB. The statements are a supplement to the financial reports used to monitor and control budgetary resources. The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

For the last several years, MSPB has received funding increases to cover most, but not all, of the built-in cost increases for expenses such as pay raises. For FY 2008, there are built-in increases requested for pay raises, space rental increases, and the cost of staff security cards. Without full funding for these built-in cost increases that the agency is required to fund in FY 2008, it would be difficult to adjudicate in a timely fashion all of the approximately 8,100 appeals the agency receives. Delays in the final resolution of personnel decisions could add cost and uncertainty to management of human resources throughout the Federal government. In addition, it would make it more difficult for MSPB to adjudicate appeals from Departments of Homeland Security and Defense employees under their new personnel management systems with the shorter deadlines and different processing standards.

Systems, Controls and Legal Compliance

Federal Managers' Financial Integrity Act

In accordance with the Federal Managers' Financial Integrity Act (FMFIA or the Act), the MSPB has an internal management control system, which helps provide assurance that (1) obligations and costs comply with applicable law; (2) assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and (3) revenues and expenditures are properly recorded and accounted for. The Act also requires assurance that funds are being used in accordance with the agency's mission and that they are achieving their intended results; that resources are protected from waste, fraud, and mismanagement; and that laws and regulations are followed. This Act encompasses program, operational and administrative areas, as well as accounting and financial management. The Act requires the Chairman to provide an assurance statement on the adequacy of management controls and conformance of financial systems with government-wide standards. The Chairman's assurance statement is contained in the transmittal letter.

During FY 2007, the MSPB continued its agreement with the Bureau of the Public Debt (BPD)—an "OMB Center of Excellence"—for that agency to process financial transactions, make administrative payments, and prepare various financial reports required by the Department of the Treasury and OMB. This agreement continued into and through FY 2007. The BPD uses the latest financial and other software for processing travel and other expenses. This financial review arrangement promotes the accuracy and timeliness of MSPB's financial records.

Improper Payments Act

MSPB has determined that there is no significant risk of improper payments at MSPB based on the review of its programs in fiscal year 2007.

Management Controls

MSPB's management review of the system of internal accounting and administrative control was evaluated in accordance with the applicable Federal guidance. The objectives of the system are to provide reasonable assurance that:

- Obligations and costs are in compliance with applicable laws;
- Funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation;
- Revenues and expenditures applicable to operations are properly recorded and accounted for to permit the preparation of reliable accounting, financial, and statistical reports; and
- Accountability over the assets is maintained.

The evaluation of management controls extends to every responsibility and activity undertaken by MSPB and is applicable to financial, administrative and operational controls. Furthermore, the concept of reasonable assurance recognizes that: (1) the cost of management controls should not exceed the projected derived benefits; and (2) the benefits consist of reductions in the risks of failing to achieve the stated objectives. The expected benefits and related costs of control procedures should be addressed using estimates and managerial judgment. Moreover, errors and irregularities

may occur and not be detected because of inherent limitations in any system of internal accounting and administrative control, including those limitations resulting from resource constraints, restrictions and other factors. Finally, projection of any evaluation of the system to future periods is subject to risk that the procedures may be inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Trends and Issues

The most significant FY 2007 trends or issues affecting MSPB's ability to carry out its mission to protect the Federal merit systems include: changes and developments in management flexibilities, employee protections, and appeals processing; changing demographics of the workforce; possible reductions in Federal spending; and changes in MSPB staff and leadership positions. These factors will make MSPB's ability to hire and retain skilled staff all the more critical.

Changes and developments in management flexibilities, employee protections and appeals processing

There continues to be an emphasis on more flexible human resources management policies and procedures. In FY 2007, there were further developments in the more flexible human capital management policies contained in the DHS and DoD personnel systems. These systems contain new requirements for appeals including shortened deadlines for pleadings, discovery, and the issuance of decisions. Greater flexibility may eventually lead to greater complexity, which will increase the difficulty of work performed by MSPB and require even more emphasis on recruiting and retaining highly competent staff.

After two years of litigation, DHS plans to move forward with the implementation of the uncontested portions of its personnel system. This implementation includes a provision that would change the standards by which MSPB may mitigate penalties imposed by DHS. It is likely that MSPB will be receiving appeals brought under the DHS personnel system beginning in calendar year 2008. Although the U.S. Court of Appeals for the District of Columbia Circuit ruled that DoD could proceed with implementation, we have been informed that the new appeals process is on hold at this time. Therefore, MSPB will continue to process adverse action appeals from DoD employees based on existing laws and precedent. Other appeals by DHS and DoD employees (e.g., involving whistleblower rights, veterans' rights and administrative retirement decisions) will continue to be processed as they have been.

The increasing number of employees who will be managed under new, non-traditional human resources management systems will also affect MSPB's statutory mission to conduct studies of the merit systems. The DHS and DoD systems, like the flexibilities granted to other agencies in recent years, provide that the Title 5 provisions governing merit system principles and prohibited personnel practices may not be waived, modified or otherwise affected. As agency-specific merit systems spread in the Federal Government, there will be an even greater need for MSPB to conduct studies of these new management systems to ensure that they are operating in accordance with merit system principles and free from prohibited personnel practices. Studying these new systems may also identify ways to improve the effectiveness and efficiency of Government operations.

Legislation was introduced in FY 2007, which, if enacted, would potentially increase the number of cases brought to MSPB. For example, the House of Representatives passed H.R. 985, the

Whistleblower Protection Enhancement Act of 2007, which would expand the scope of whistleblower protections and increase the number of covered employees. Additionally, the Senate whistleblower bill, S. 274, was recently reported out of the Senate Committee on Homeland Security and Governmental Affairs.

Finally, a court decision was issued in FY 2007 which impacts the process MSPB uses for processing appeals. In *Kirkendall v. Department of the Army,* the U.S. Court of Appeals for the Federal Circuit held that an appellant who brings a Uniformed Services Employment and Reemployment Rights Act (USERRA) claim before the MSPB has an unconditional right to a hearing even when the Administrative Judge who is adjudicating the appeal has determined that there is no need for a hearing. This decision will increase the number of hearings in appeals brought under the USERRA, leading to an increase in the overall number of hearings.

Changing demographics of the Federal workforce

The increasing proportion of retirement-eligible Federal employees and the need to hire employees to replace them, has a significant potential impact on our appeals workload as well as on the need to ensure this multigenerational workforce continues to be managed under the merit principles. The average age of the current Federal workforce is the highest it has ever been. As these relatively older employees retire we are likely to see an increase in the number of retirement-related appeals. In addition, older, more experienced employees are not subjected to as many appealable actions as are younger, less experienced employees. As the proportion of younger employees increases through shifts in the workforce, we may experience an increase in the number of appealable actions. These changes will result in an overall increase in our adjudicatory workload.

These generational shifts mean that we will have four generations of employees in the workforce, perhaps for the first time in history. Each generation has different expectations for work and for employers, is motivated by different factors, and sets different priorities for its work and family life. This increases the potential for conflict in the workplace and adds to the complexity of the supervisor's role. Achieving results may require agencies and supervisors to use different incentives and management strategies for different generational groups. Using different strategies to manage different groups of people has implications for the Federal merit systems. While this approach to management is philosophically consistent with the merit system values, the day-to-day operation of different strategies in the same office will be challenging. Therefore, these workforce shifts may add to the complexity of our merit systems studies work.

Possible reductions in Federal spending

There continues to be the need to meet Federal funding obligations while minimizing increases in the size of the Federal budget. As this pressure continues and increases, the potential for decreasing the size of the workforce also increases. Reducing the workforce is likely to lead to increases in the number of employees who are separated involuntarily through reductions in force (RIF). If historical trends are accurate, this will lead to potentially large increases in the number of appeals to MSPB. We continue to monitor this possibility, and ensure we hire and retain sufficient staff to process appeals in accordance with the law and with MSPB quality and timeliness standards.

Changes in MSPB staff and leadership positions

We need the right people with the right skills to adjudicate appeals, conduct merit systems studies and support those missions. In FY 2007, several professional and administrative employees retired or transferred to positions in other agencies. We continued to use a variety of methods to recruit for and hire high-quality staff to replace these departing employees. MSPB also needs high quality leaders and managers who can manage our programs now and into the future. In FY 2007, there were significant changes in our leadership team at Headquarters beginning with the appointment of our new General Counsel early in FY 2007. This was followed by the retirement of the Clerk of the Board, transfer of the Director of Appeals Counsel to the Vice Chairman's office and retirement of the Director of the Office of Policy and Evaluation. We are taking a deliberate, strategic approach to filling these leadership positions, which are critical to the successful performance of our statutory and support responsibilities. In FY 2008, we will continue these efforts to ensure we retain the right people with the right skills to accomplish our mission.

Program Performance Report

Adjudication Performance

Summary

Strategic Goal 1: To provide fair, high quality, timely and efficient adjudication of cases filed with MSPB and to make effective use of alternative methods of dispute resolution in MSPB proceedings.

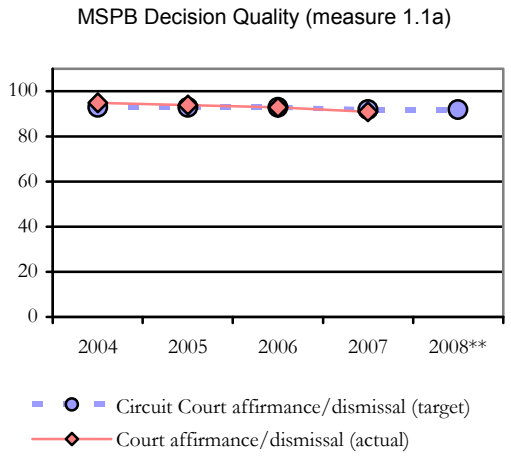
Performance Goals

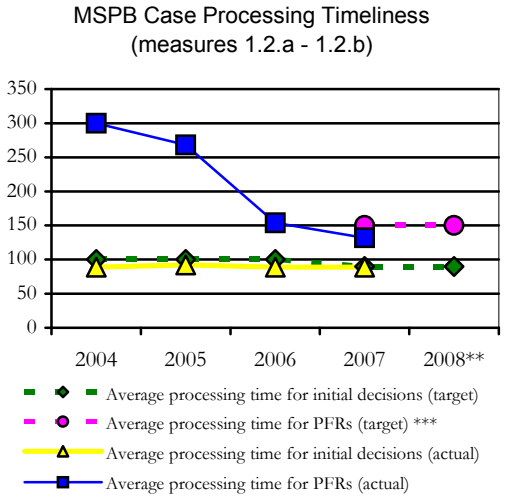
1.1 Issue high quality decisions.
1.2 Issue timely decisions.
1.3 Process cases efficiently.
1.4 Make effective use of alternative methods of dispute resolution .
1.5 Achieve and maintain customer satisfaction with our adjudicatory and alternative dispute resolution programs and with adjudication outreach efforts.

Resources

	FY 2007 (enacted)	FY 2008 (requested)
Budget $ (000)	$33,537	$34,726
% of total MSPB resources	86	87

Selected Results (** Proposed target rate *** New goal in FY 2007)





Performance Goals and Results

Performance Goal 1.1: Issue high quality decisions.

1.1.a: Percentage of MSPB decisions unchanged on review by the U.S. Court of Appeals for the Federal Circuit (Court dismisses case or affirms Board decision).

Results		**Targets**	
FY 2004	95%	**FY 2007**	92% or greater.
FY 2005	94%	**FY 2008**	92% or greater.
FY 2006	93%		
FY 2007	91%		

1.1.b: Percent of cases decided by the Board on Petition for Review (PFR) that are reversed and/or remanded to MSPB judges for a new decision, adjusted for those not due to error or oversight by the AJ.

Results		**Targets**	
FY 2004	6%	**FY 2007**	Assess methods of adjustment and set future targets
FY 2005	7%		
FY 2006	10%*	**FY 2008**	10% or fewer cases.
FY 2007	9%		

Summary results for Performance Goal 1.1:

This Performance Goal was **MET**. The percent of cases left unchanged by the Court fell slightly short (within 2 percent) of MSPB's target for this year. This measure of the quality of the Board's decisions focuses on the degree to which MSPB's appellate Court agreed with—dismissed or affirmed—the Board's decisions. This proportion of cases in which the Court disagrees with the Board's decision includes individual cases as well as multiple cases that are affected when new laws are applied or there are changes in the application of previous precedent. The MSPB continues to track Court decisions and changes in civil service laws in order to improve and maintain the quality of its decisions. The FY 2008 target will remain 92 percent or greater. A method was chosen to adjust the rate of cases decided on PFR that were reversed or remanded to MSPB judges for those cases that were not due to an error or oversight by the AJ. Though there was no numeric target for FY 2007, the new adjustment rate resulted in 9 percent of cases remanded or reversed. The FY 2008 target is set at 10 percent or fewer cases.

*Results adjusted for cases related to *Butterbaugh v. Department of Justice*

Performance Goal 1.2: Issue timely decisions.

1.2.a: Average case processing time for initial decisions.

Results		Targets	
FY 2004	89 days	**FY 2007**	90 days or less.
FY 2005	92 days	**FY 2008**	90 days or less.
FY 2006	89 days		
FY 2007	89 days		

1.2.b: Average case processing time for petitions for review (PFRs).

Results		Targets	
FY 2004	300 days	**FY 2007**	150 days or less; assess measures and set future targets.
FY 2005	268 days	**FY 2008**	150 days or less.
FY 2006	154 days		
FY 2007	132 days		

1.2.c: Percentage of initial appeals decided within time standards.

Results		Targets	
FY 2004	N/A new measure in 2007	**FY 2007**	85% or more of cases decided within 120 days; assess measure and set future targets.
FY 2005	N/A new measure in 2007	**FY 2008**	85% or more of cases decided within 120 days.
FY 2006	N/A new measure in 2007		
FY 2007	85%		

1.2.d: Percentage of PFRs decided within time standards.

Results		Targets	
FY 2004	N/A new measure in 2007	**FY 2007**	50% or more of cases decided within 110 days; assess measure and standard and set future targets.
FY 2005	N/A new measure in 2007	**FY 2008**	50% or more of cases decided within 110 days.
FY 2006	N/A new measure in 2007		
FY 2007	48%		

Summary Results for Performance Goals 1.2: This Performance Goal was **MET**. The average processing time for PFRs exceeded the target by 12 percent (132 days compared to 150 days). The percent of initial appeals closed within 120 days equaled the target of 85 percent. The proportion of PFRs closed within 110 days was within 4 percent of the target rate (48 percent compared to 50 percent). The FY 2008 targets for the average processing time and percent of cases closed within time standards for initial appeals and PFRs are the same as those established for FY 2007. In addition, in FY 2008 we will add a new measure for average processing time for enforcement cases (at headquarters only). In FY 2008, we will assess the new measure and establish future targets.

Performance Goal 1.3: Process cases efficiently.

1.3.a: Hold increase in overall average case processing cost to no more than the percentage increase in operating costs, adjusted for the changes in the number of decisions issued.

Results		**Targets**
FY 2004	$2,701 (Adjusted)	**FY 2007** $2,830 adjusted for the changes in the number of decisions issued.
FY 2005	$2,793 (Adjusted)	
FY 2006	$2,830 (Adjusted)	**FY 2008** $2,808 adjusted for the changes in the number of decisions issued.
FY 2007	$2,808 (Adjusted)	

Summary results for Performance Goal 1.3: This Performance Goal was **MET**. The average (adjusted) case processing cost for FY 2007 was slightly lower that the average case processing cost observed for FY 2006. The FY 2008 target is set at $2,808 adjusted for the changes in the number of decisions issued.

Performance Goal 1.4: Make effective use of alternative methods of dispute resolution in MSPB Proceedings.

1.4.a: Percentage of cases successfully resolved through settlement procedures.

Results		**Targets**
FY 2004	N/A new measure in 2007	**FY 2007** 50% success rate or better (for initial appeals and PFRs combined); assess and establish appropriate future targets.
FY 2005	N/A new measure in 2007	
FY 2006	N/A new measure in 2007	
FY 2007	56%.	**FY 2008** The settlement rates will be measured separately beginning in FY 2008.

1.4.b: Number of cases mediated and percentage of cases successfully resolved through mediation procedures.

Results	**Targets**
FY 2004 N/A measure adjusted in 2007	**FY 2007** 5% increase in number of cases mediated compared to the total mediated in FY 2006, with 50% or better success rate; assess and establish appropriate measure and future targets.
FY 2005 83 cases mediated with a success rate of 48 percent.	**FY 2008** Mediate 96 or more cases with a 50% or better success rate.
FY 2006 109 cases mediated with a success rate of 45% at the conclusion of the MAP, and a success rate of 61% including cases that settled after returning to adjudication.	
FY 2007 100 cases were mediated with a success rate of 48% at the conclusion of MAP (48 settled cases), and a success rate of 67% including cases that settled after returning to adjudication (19 additional cases settled).	

Performance Goal 1.4: (Continued)

Summary results for Performance Goal 1.4: This performance goal was **MET**. The combined settlement rate (including initial appeals and PFRs) exceeded the target value by 12 percent (58% compared to 50%). In FY 2008, the settlement rates for initial appeals and PFRs will be measured and reported separately, with targets of 50 percent or better for initial appeals and 35 percent or better for PFRs. The number of cases mediated in FY 2007 (100 cases) was within 10 percent of the number mediated in FY 2006 (109 cases) and 20 percent more than the number mediated in FY 2005 (83 cases). The mediation success rate was within 4 percent of the target rate (48% compared to 50%), and exceeded the target rate when cases that settled after returning to adjudication were included (67%). The assessment of the mediation measure indicated that the increase in the number of cases mediated in FY 2006 was unusually large. Therefore, the targets for future growth of the MAP will be the number of cases defined by an increase of 5 percent per year in the number of cases mediated over the number mediated in FY 2005. The FY 2008 target for the MAP program is to mediate 96 cases or more with a 50 percent or better success rate.

Performance Goal 1.5: Achieve and maintain customer satisfaction with our adjudicatory and alternative dispute resolution programs and with adjudication outreach efforts.

1.5.a: Customer satisfaction with adjudication and alternative dispute resolution processes and with adjudication outreach efforts.

Results

FY 2004 N/A new measure in 2007
FY 2005 N/A new measure in 2007
FY 2006 N/A new measure in 2007
FY 2007 Completed internal report on customer satisfaction with initial appeals and settlement processes which indicated that customers are satisfied with MSPB processes and their interactions with MSPB employees; feedback from e-Appeal users was positive including many who reported encouraging all users in their agencies to file using e-Appeal.

Targets

FY 2007 Assess and establish appropriate customer satisfaction measures and set future targets.
FY 2008 Develop an automated random survey for e-Appeal customers.

Summary results for Performance Goal 1.5: This Performance Goal was **MET**. Surveys results and informal feedback indicated that most customers are satisfied with MSPB processes and procedures and with their interactions with MSPB employees. In FY 2008 we will develop an automated survey for e-Appeal customers.

Merit Systems Studies Performance

Summary

Strategic Goal 2: To conduct studies that support strong and viable merit systems that ensure the public's interest in a high quality, professional workforce managed under the merit principles and free from prohibited personnel practices.

Performance Goals

2.1 Conduct merit systems studies and recommend improvements to policy-makers and practitioners.

2.2 Assess the practice of merit in the workplace.

2.3 Achieve and maintain customer satisfaction with merit systems studies products and outreach efforts.

Resources

	FY 2007 (enacted)	**FY 2008 (requested)**
Budget $ (000)	$1,788	$1,830
% of total MSPB Resources	5	5

Selected Results

Significant recommendations

Reduce HR rules and prescriptive procedures and increase flexibility.
Replace "Rule of 3" with categorical ranking.
Improve assessment and selection practices.
Reassess need for Outstanding Scholar Program.

Select recent studies (beginning with most recent)

Attracting the Next Generation: A Look at Federal Entry-Level New Hires
Merit Systems Protection Board Annual Report for FY 2006
Accomplishing Our Mission: Results of the Merit Principles Survey 2005
The FY 2006 Performance and Accountability Report
Navigating the Probationary Period After *VanWersch* and *McCormick*
Reforming Federal Hiring: Beyond Faster and Cheaper
Proceedings from the Practice of Merit: A Symposium
Contracting Officer Representatives: Managing the Government's Technical Experts to Achieve Positive Contract Outcomes
Designing an Effective Pay for Performance Compensation System
Reference Checking in Federal Hiring: Making the Call
Building a High-Quality Workforce: The Federal Career Intern Program
Probationary Period: A Critical Assessment Opportunity
Managing Federal Recruitment: Issues, Insights, and Illustrations

Performance Goals and Results

Performance Goal 2.1: Conduct merit systems studies and recommend improvements to policy-makers and practitioners.

2.1.a: Number and scope of MSPB reports and *Issues of Merit* newsletters issued.

Results

FY 2004 Reviewed and adjusted research agenda; completed 6 reports on issues that are important to Federal HR stakeholders, automated staffing, recruitment, the FY 2003 Annual Report, MSPB's regional and field office staffing, and the studies function customer satisfaction survey; also published the MSPB Strategic Plan for FY 2004 - 2009 and the PAR for FY 2003; 3 other study reports were under review; released 4 editions of the newsletter including one celebrating MSPB's first 25 years; continued to formalize collaborative relationships with other research organizations.

FY 2005 Published 2 internal reports on the PFR process and HR customer satisfaction, and 4 external reports including the FY 2004 Annual Report and reports on the probationary period, the Federal career intern program, and reference checks; published the PAR for FY 2004 within the new 45-day timeline; completed 2 other merit systems reports that were in final review at the end of the fiscal year; published 4 editions of the newsletter; increased focus on internal Board and adjudication issues by completing important studies of the PFR process and HR customer satisfaction, and by making significant progress on an internal study of the initial appeals and settlements processes.

FY 2006 Published 8 reports and 4 editions of the newsletter. Report topics included: designing effective pay-for-performance compensation systems, managing contracting officer representatives to achieve positive contract outcomes, reforming Federal hiring, the symposium on the practice of merit, the affect of *VanWersch* and *McCormick* on the probationary period, study of initial appeals and settlements (internal report), the MSPB FY 2005 Annual Report and the MSPB FY 2005 Performance and Accountability Report; completed reports on the 2005 Merit Principles Survey (MPS), baseline data for DHS, baseline data for DoD and a draft of the MSPB Strategic Plan for FY 2007 – 2012.

FY 2007 Published a report on the results of the 2005 Merit Principles Survey and 4 editions of the *Issues of Merit* newsletter; completed a report on Federal entry-level new hires and four internal reports; published MSPB's Annual Report for FY 2006, FY 2006 Performance and Accountability Report (PAR), FY 2007- 2012 Strategic Plan and FY 2007 (revised) - FY 2008 (final) Performance Plan; received Board Member approval for a new research agenda covering the 2008 – 2010 time period.

Targets

FY 2007 Complete 6 reports and 4 editions of the newsletter; assess scope of studies and newsletters; evaluate future potential research topics.

FY 2008 Complete 6 reports and 4 editions of the newsletter; assess scope of studies and newsletters; evaluate and select future research topics from those approved in FY 2007.

Performance Goal 2.1: (Continued.)

2.1.b: Studies or study recommendations referenced in policy papers, professional literature, legislation and the media.

Results

FY 2004 Conducted a customer satisfaction survey of stakeholders of MSPB's merit systems studies and newsletters with results indicating that respondents continue to hold publications in high regard; continued to track the impact of studies on human resources management and merit systems policies and on the practice of merit in the workplace; reviewed possible measures of impact and identified several measures to be pilot tested.

FY 2005 Reviewed alternative measures of impact of studies and began pilot test using customer survey card inserts in reports and began review of current vacancy announcements to assess the impact of Vacancy Announcement report.

FY 2006 Used customer feedback survey cards in hard copy reports and an online version for web-based users to help assess usefulness and impact of studies; continued review of vacancy announcements including projected cost impacts; continued to collect information about use of MSPB study findings and recommendations as reports are referenced in policy papers, professional literature, legislation and the media.

FY 2007 Evaluated the feedback provided by customers through both report feedback cards and web-based surveys concerning study reports and the OPE newsletter; collected information concerning MSPB report findings and recommendations through references in the professional literature, legislation and the media which included a presentation on referencing MSPB reports at the Annual Conference of the American Society for Public Administration.

Targets

FY 2007 Continue to track and evaluate mechanisms for measuring the impact of studies and newsletters.

FY 2008 Continue to track and evaluate mechanisms for measuring the impact of studies and newsletters.

Summary results for Performance Goal 2.1: This Performance Goal was **MET**. MSPB exceeded its target for the number of completed reports by completed seven reports (17% more than the target) and four editions of the newsletter. Two additional reports were completed and submitted for final approval. In addition, MSPB published a new Strategic Plan for FY 2007 – 2012. MSPB reports continue to be referenced in the media. The number of studies and reports varies each year so the target for number of reports and editions of the newsletter will remain the same for FY 2008. MSPB will continue to track and evaluate ways to measure the impact of studies and newsletters in FY 2008.

Performance Goal 2.2: Assess the practice of merit in the workplace.

2.2.a: Periodically conduct merit principles survey (MPS) or other surveys to monitor and report on perceptions of merit in the workplace.

Results

FY 2004 Completed preparations for the next MPS, however administration of the survey was delayed until at least the first quarter of FY 2005 to avoid overlap with OPM's Human Capital Survey; fully coordinated survey issues with OPM, and OPM agreed to assist us in the capture of email addresses for our survey sample.

FY 2005 Successfully completed largest and first electronic Web-based MPS distributed to 80,000 employees; used this automated capability to refine questions and provide agency Chief Human Capital Officers (CHCOs) the option to use the MPS to meet their FY 2005 statutory survey requirement; similar options were built into OPM's implementing guidance for the survey requirement.

FY 2006 Completed three reports using data from the 2005 MPS including a baseline report on DHS and a baseline report on DoD; collected data from OPM's Central Personnel Data File (CPDF) on DHS and DoD to monitor the impact of personnel system changes; collaborated with the Senior Executive Association (SEA) on the annual survey requirement followed by SEA proposing legislation which included a requirement to use the MSPB MPS in alternate years to the OPM Human Capital Survey; began planning a survey to assess the practice of merit and prohibited personnel practices related to equitable treatment.

FY 2007 Published a report on the FY 2005 MPS; began electronic administration of the FY 2007 MPS which included assisting several agencies in meeting their statutory requirement for conducting an annual survey of their workforce; began electronic administration of a separate survey to investigate career advancement issues in the Federal workforce.

Targets

FY 2007 Continue to assess the practice of merit and prohibited personnel practices in agencies; assist agencies in meeting the statutory requirement for conducting annual employee survey through a new MPS to be administered in FY 2007.

FY 2008 Analyze and report findings from the FY 2007 MPS including the assessment of the practice of merit and occurrence of prohibited personnel practices. Determine whether to conduct the next merit principles survey in 2009 or 2010 based upon experience in 2007.

Summary results for Performance Goal 2.2: This Performance Goal was **MET**. MSPB published the report on the 2005 MPS and successfully began administration of the 2007 MPS. In addition, MSPB successfully began administration of a second Governmentwide survey on the career advancement issues of Federal employees. MSPB is assisting several agencies in meeting their statutory requirement to conduct an annual survey of their workforce. In FY 2008, MSPB will analyze and report findings from the 2007 MPS and determine when to conduct the next MPS.

Performance Goal 2.3: Achieve and maintain customer satisfaction with merit systems studies products and outreach efforts.

2.3.a: Customer satisfaction with reports, newsletters, Website and outreach efforts.

Results

FY 2004 – 2006 N/A new measure in FY 2007.

FY 2007 Collected and analyzed feedback from customers concerning their satisfaction with MSPB reports, newsletters, our Website and outreach efforts using a variety of methods including discussions with stakeholders, responses received from feedback cards distributed with reports and information obtained directly from users of the Website; used this information to inform the development of our research agenda for FY 2008 - FY 2010, improve the quality, usefulness and impact of our reports and newsletters, and completely redesigned our Website to make it more accessible and helpful to potential users.

Targets

FY 2007 Collect feedback on the quality, usefulness and impact of reports, newsletters, Website and outreach efforts from response cards and stakeholder surveys.

FY 2008 Use feedback on quality usefulness and impact of reports to maintain or improve the readability of reports and make improvements to the Website.

Summary results for Performance Goal 2.3: This Performance Goal was **MET**. MSPB used a variety of methods to collect customer feedback about the quality and usefulness of its studies products. In FY 2008, MSPB will use this feedback to maintain or improve the readability of reports and continue to improve the studies Website.

Management Support and Organizational Excellence Performance

Summary

Strategic Goal 3: To achieve organizational excellence and strategically manage MSPB's human capital, information technology and other internal systems and processes.

Performance Goals

3.1 Attract, develop and retain a high quality, diverse and highly motivated workforce.

3.2 Effectively use information technology to enhance organizational performance and efficiency, and provide appropriate access to and dissemination of MSPB information.

3.3 Effective and efficient operation of financial, budget and other support programs.

Resources

	FY 2007 (enacted)	**FY 2008 (requested)**
Budget $ (000)	$3,444	$3,530
% of total MSPB Resources	9	9

Performance Goals and Measures

Performance Goal 3.1: Attract, develop and retain a high quality, diverse and highly motivated workforce.

3.1.a: Program managers agree that the right employees are in the right place to achieve results.

Results

FY 2004 – 2006 N/A new measure in FY 2007.

FY 2007 MSPB was designated as the second "Best Places to Work in Government" in the small agency category; Office Directors focused on specific issues relevant to their offices; increased use of structured interviews resulted in a better comparative assessment of the qualifications of the best qualified candidates.

Targets

FY 2007 Establish assessment and measurement criteria and set future targets.

FY 2008 Develop exit interview questionnaire to assist with assessment process.

Performance Goal 3.1: (Continued.)

3.1.b: Customer satisfaction with internal human resources programs.

Results

FY 2004 – 2006 N/A new measure in FY 2007.
FY 2007 Informal interviews with employees suggested high level of satisfaction with HR programs; staffing actions handled by the APHIS servicing personnel office met or exceeded governmentwide standards; hired new HR Director and detailed an employee to serve as the Acting EEO Director to replace the pervious Director who transferred to another agency.

Targets

FY 2007 Utilize customer feedback and program assessment methods to establish measurement data to track customer satisfaction and to assist in program evaluation.
FY 2008 Develop, implement and assess a customer satisfaction survey of senior officials, managers and employees on internal human resources programs and establish future targets.

3.1.c: Effectively implement human capital authorities and flexibilities.

Results

FY 2004 – 2006 N/A new measure in FY 2007.
FY 2007 Forwarded employee OPFs to contractor for scanning and began using e-OPF for all new employees; received provisional certification from OPM on our SES Performance Appraisal System; HR Director visited APHIS Service Center to discuss operational processes and opportunities for change.

Targets

FY 2007 Implement and complete transfer of files to e-OPF; comply with new and existing program requirements.
FY 2008 Update and reevaluate interagency agreement with HR services provider; prepare and submit SES Performance Appraisal System for full certification.

Summary results for Performance Goal 3.1: This Performance Goal was **MET**. MSPB was recognized as one the "Best Places to Work in Government" achieving the second highest ranking among small agencies indicating MSPB has an effectively managed, highly motivated workforce. MSPB received provisional certification of its SES performance appraisal system and complied with new and existing human capital requirements. The new HR Director increased the focus on these issues as well as on internal customer satisfaction with human capital services. In FY 2008, MSPB will develop an exit survey to assist with assessment, and will develop, implement, and assess a customer satisfaction survey on internal human resources programs and set future targets. MSPB will also evaluate the interagency agreement for HR services and apply for full certification of its SES Performance Appraisal System. In FY 2008, MSPB will also add a new performance measure on ensuring that the agency's mission is enhanced by a diverse workforce.

Performance Goal 3.2: Effectively use information technology to enhance organizational performance and efficiency, and provide appropriate access to and dissemination of MSPB information.

3.2.a: Support e-Government objectives by increasing appeals and pleadings filed electronically.

Results

FY 2004 – 2006 N/A new measure in FY 2007.
FY 2007 29% of initial appeals filed were filed electronically (1763/5991).

Targets

FY 2007 25% or greater of initial appeals are filed electronically; assess measure and results and adjust for FY 2008.
FY 2008 26% or greater of initial appeals are filed electronically.

3.2.b: Improve customer service by conforming with established IRM service level agreements (SLA).

Results

FY 2004 – 2006 N/A new measure in FY 2007.
FY 2007 88% of technical support tickets (or requests) were resolved in one business day.

Targets

FY 2007 80% of tickets resolved within one business day.
FY 2008 84% of tickets resolved within one business day.

3.2.c: Measure success in enhancing organizational performance and efficiency through IRM customer satisfaction surveys.

Results

FY 2004 – FY 2006 N/A new measure in FY 2007.
FY 2007 Conducted an internal IRM customer satisfaction survey; 86% of the 64 MSPB staff who responded to the survey indicated they were satisfied or very satisfied with IRM meeting their needs.

Targets

FY 2007 Determine customer satisfaction measure and establish appropriate future year targets.
FY 2008 80% or more of MSPB staff who respond to the survey will indicate they were satisfied or very satisfied with IRM meeting their needs.

Performance Goal 3.2: (Continued.)

3.2.d: Comply with information management regulatory requirements.

Results

FY 2004 – 2006 N/A new measure in FY 2007.
FY 2007 FISMA compliance was reviewed by outside contractor and final FISMA report was submitted to OMB; 100% of MSPB employees completed annual security awareness training; remained in full compliance with FISMA, HSPD-12 and IPv6.

Targets

FY 2007 Comply with Federal Information Systems Management Act (FISMA) and other regulatory requirements.
FY 2008 Comply with FISMA and other regulatory requirements.

Summary results for Performance Goal 3.2: This Performance Goal was **MET**. MSPB exceeded the target for the percent of initial appeals filed electronically by 16 percent (29% versus 25%). In addition, MSPB upgraded the e-Appeal system to improve functionality; implemented high-speed scanning capability in all MSPB adjudication offices to support e-Appeal, and improved access to case information by internal MSPB adjudication offices. We also exceeded the target for percent of tickets resolved within one business day by 10 percent (88% versus 80%), and an internal survey of IRM customers indicated that 86 percent of respondents were satisfied or very satisfied with IRM meeting their needs. MSPB continued to comply fully with information management regulatory requirements. The FY 2008 targets are 26 percent or more of initial appeals filed electronically, 84 percent or more of tickets resolved within one business day, 80 percent or more of internal MSPB staff satisfied with IRM meeting their needs and continued compliance with information management regulatory requirements.

Performance Goal 3.3: Effective and efficient operation of financial, budget and other support programs.

3.3.a: Maintain accurate and legally sound budget accounts and accountings ledgers.

FY 2004 – 2006 N/A new measure in FY 2007.
FY 2007 Achieved unqualified opinion on the FY 2006 Financial Audit; maintained accurate, up-to-date budget and accounting ledgers; began update of internal Financial Management Manual.

Targets

FY 2007 Achieve unqualified opinion on the annual financial audit.
FY 2008 Achieve unqualified opinion on the annual financial audit.

Performance Goal 3.3: (Continued.)

3.3.b: Customer satisfaction of employees with other support programs (i.e., payroll, travel, printing and procurement).

Results

FY 2004 – 2006 N/A new measure in FY 2007.
FY 2007 Used customer feedback to review and update support program manuals; issued new procurement manual; began update of Time and Attendance; hired new travel coordinator and a second employee as a procurement specialist.

Targets

FY 2007 Assess feedback from customers to determine future targets.
FY 2008 Based on feedback received, develop, implement and begin evaluating a questionnaire on customer service satisfaction and establish future numeric targets.

Summary results for Performance Goal 3.3: This Performance Goal was **MET**. MSPB achieved an unqualified opinion on its financial audit of FY 2006 results and continued to effectively manage its other internal management programs. In FY 2008, MSPB will maintain the financial management target and will develop, implement and begin evaluating a questionnaire to assess internal customer satisfaction with its other internal management programs.

Financial Accountability Report

Message from the Chief Financial Officer

I am pleased to present the U.S. Merit Systems Protection Board's (MSPB) financial statements for fiscal year 2007. Once again, we are proud of our accomplishments in receiving an unqualified opinion on our financial status from the independent auditor. Since June 2002, we have worked with the Department of the Treasury Bureau of Public Debt (BPD) in Parkersburg, West Virginia, which has been designated by the Office of Management and Budget as a Center of Excellence. BPD is responsible for handling our administrative payments and preparing our financial statements. Through its franchise operation, BPD has provided us with timely and complete reports to satisfy our day-to-day operating needs as well as the reporting requirements for Congress, our auditors, and other external reviewing organizations.

This working relationship with MSPB and BPD has facilitated the agency's compliance with all external reporting requirements. The timeliness and completeness of the reports allow us to operate more efficiently and to identify and correct any potential problems quickly. Reports and communications between MSPB and BPD are virtually all electronic, in compliance with the President's Management Agenda initiative to increase the use of e-government applications.

We are also committed to strengthening our financial performance in accordance with the Presidential Management Agenda initiative. In recent years we have increased our reporting of the cost of developing internal use software and leaseholder improvements. We also have an electronic time and attendance reporting tool that has saved staff time and improved accuracy.

While we are pleased with our accomplishment of unqualified opinions for the past four years, we will continue to work on improving our financial management performance during the coming years.

Charles Roche
Chief Financial Officer

November 15, 2007

Letter to the Auditor on Management Controls

U.S. MERIT SYSTEMS PROTECTION BOARD

Financial and Administrative Management
1615 M Street, NW
Washington, DC, DC 20036

Phone: (202) 653-6772, ext. 1119; Fax: (202) 653-7831; E-Mail: charlie.roche@mspb.gov

Director

MANAGEMENT REPRESENTATION LETTER

November 5, 2007

Mr. Tyrone Brown
Managing Member
Brown & Company CPAs, PLLC
9200 Basil Court
Suite 400
Largo, Maryland 20774

Dear Mr. Brown:

This letter is in connection with your audit of the U.S. Merit Systems Protection Board's (MSPB) balance sheet as of September 30, 2007 and 2006, and the related statements of net costs, changes in net position and budgetary resources for the years then ended for the purposes of (1) expressing an opinion as to whether the financial statements are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America, (2) reporting on the entity's internal control as of September 30, 2007, and (3) testing for compliance with applicable laws and regulations.

Certain representations in this letter are described as being limited to matters that are material. For purposes of this letter, matters are considered material if they involve $794,000 or more. Items also are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following representations made to you during the audits (these representations are as of the date of this letter, pertain to both years' financial statements, and update the representations we provided in the prior year):

1. We are responsible for the fair presentation of the financial statements in conformity with accounting principles generally accepted in the United States of America.

2. The financial statements are fairly presented in conformity with accounting principles generally accepted in the United States of America.

3. We have made available to you, all

   a. financial records and related data,

   b. where applicable, minutes of meetings of the U.S. Merit Systems Protection Board or summaries of actions of recent meetings for which minutes have not been prepared, and

   c. communications from the Office of Management and Budget (OMB) concerning noncompliance with or deficiencies in financial reporting practices.

4. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements or disclosed in the notes to the financial statements.

5. The MSPB has satisfactory title to all owned assets; such assets have no liens or encumbrances; and no assets have been pledged.

6. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.

7. There are no guarantees under which the MSPB is contingently liable.

8. There are no related party transactions.

9. All intra-entity transactions and balances have been appropriately identified and eliminated for financial reporting purposes, unless otherwise noted. All intra-governmental transactions and balances have been appropriately recorded, reported, and disclosed. We have reconciled intra-governmental transactions and balances with the appropriate trading partners for the four fiduciary transactions identified in Treasury's *Intra-governmental Fiduciary Transactions Accounting Guide,* and other intra-governmental asset, liability and revenue amounts as required by the applicable OMB Bulletin.

10. There are no:

    a. possible violations of laws and regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency,

    b. material liabilities or gain or loss contingencies that are required to be accrued or disclosed that have not been accrued or disclosed, or

    c. unasserted claims or assessments that are probable of assertion and must be disclosed that have not been disclosed.

11. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.

12. No material events or transactions have occurred subsequent to September 30, 2007, that have not been properly recorded in the financial statements or disclosed in the notes.

13. We are responsible for establishing and maintaining internal control.

14. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud (intentional misstatements or omissions of amounts or disclosures in financial statements and misappropriation of assets that could have a material effect on the financial statements).

15. We have no knowledge of any fraud or suspected fraud affecting the MSPB involving:

    a. management,
    b. employees who have significant roles in internal control, or
    c. others where the fraud could have a material effect on the financial statements.

16. We have no knowledge of any allegations of fraud or suspected fraud affecting the MSPB received in communications from employees, former employees, or others.

17. Pursuant to 31 U.S.C. 3512(c) (d) (commonly known as the Federal Mangers' Financial Integrity Act), we have assessed the effectiveness of the MSPB's internal control in achieving the following objectives:

    a. reliability of financial reporting – transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition;

    b. compliance with applicable laws and regulations – transactions are executed in accordance with (i) laws governing the use of budget authority and with other laws and regulations that could have a direct and material effect on the financial statements, and (ii) any other laws, regulations, and government-wide policies identified by OMB in its audit guidance; and

    c. reliability of performance reporting – transactions and other data that support reported performance measures are properly recorded, processed, and summarized to permit the preparation of performance information in accordance with criteria stated by management.

18. Those controls in place on September 30, 2007, and during the years ended 2007 and 2006, provided reasonable assurance that the forgoing objectives are met.

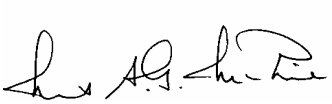
19. There are no significant deficiencies in the design or operation of internal control that could adversely affect the MSPB's ability to meet the internal control objectives and there are no material weaknesses.

20. There have been no changes to internal control subsequent to September 30, 2007, or other factors that might significantly affect it.

21. We are responsible for the MSPB's compliance with applicable laws and regulations.

22. We have identified and disclosed to you all laws and regulations that have a direct and material effect on the determination of financial statement amounts.

23. There are no known instances of noncompliance with laws and regulations.



Neil A.G. McPhie
Chairman

Charles P. Roche
Chief Financial Officer

Independent Auditor's Report on the Financial Statements

CERTIFIED PUBLIC ACCOUNTANTS AND MANAGEMENT CONSULTANTS

INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

U.S. Merit Systems Protection Board
Washington, D.C.

We have audited the accompanying balance sheet of the U.S. Merit Systems Protection Board (MSPB) as of September 30, 2007 and 2006, and the related statements of net cost, changes in net position, budgetary resources, and financing for the years then ended (collectively referred to as the financial statements). These financial statements are the responsibility of MSPB's management. Our responsibility is to express an opinion on these financial statements based on our audit.
We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in U.S. Government Auditing Standards, issued by the Comptroller General of the United States; and, Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirement for Federal Financial Statements.* Those standards and OMB Bulletin No. 07-04 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the MSPB as of September 30, 2007 and 2006, and its net costs, changes in net position, and budgetary resources for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with U.S. Government Auditing Standards and OMB Bulletin No. 07-04, we have also issued a report dated November 9, 2007 on our consideration of the MSPB's internal control over financial reporting and its compliance with provisions of laws and regulations. Those reports are an integral part of an audit performed in accordance with U.S. Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The information in "Management's Discussion & Analysis" is presented for the purpose of additional analysis and is required by OMB Circular No. A-136, revised *Financial Reporting Requirements*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and, accordingly, express no opinion on it.

Brown & Company

Largo, Maryland
November 9, 2007

LARGO
9200 BASIL COURT, SUITE 400
LARGO, MD 20774
(240) 492-1400 • FAX: (301) 636-6013
mail@brownco-cpas.corn

RICHMOND
100 WEST FRANKLIN STREET, SUITE 102
RICHMOND, VA 23220
(804) 648-2017 • FAX: (804) 648-2018
tdbrowncocpas@aol.com

Audited Financial Statements

U. S. MERIT SYSTEMS PROTECTION BOARD
BALANCE SHEET
As of September 30, 2007 and 2006
(in dollars)

	2007	2006
Assets:		
Intragovernmental:		
Fund Balance with Treasury (Note 2)	$ 6,665,239	$ 7,345,253
Total Intragovernmental	6,665,239	7,345,253
Accounts Receivable	4,493	983
General Property, Plant and Equipment, Net (Note 3)	3,232,577	5,080,930
Total Assets	$ 9,902,309	$ 12,427,166
Liabilities:		
Intragovernmental:		
Accounts Payable	$ 474,254	$ 283,484
Payroll Taxes Payable	$ 176,918	$ 181,739
Unfunded FECA Liability (Note 4)	108,687	89,859
Total Intragovernmental	759,859	555,082
Accounts Payable	557,808	500,282
Unfunded Leave (Note 4)	2,293,385	2,293,386
Accrued Funded Payroll	952,418	1,054,064
Payroll Taxes Payable	43,525	45,296
Total Liabilities	$ 4,606,995	$ 4,448,110
Net Position:		
Unexpended Appropriations - Other Funds	$ 4,460,316	$ 5,280,389
Cumulative Results of Operations - Other Funds	834,998	2,698,667
Total Net Position	$ 5,295,314	$ 7,979,056
Total Liabilities and Net Position	$ 9,902,309	$ 12,427,166

The accompanying notes are an integral part of these statements.

U. S. MERIT SYSTEMS PROTECTION BOARD
STATEMENT OF NET COST
For the years ended September 30, 2007 and 2006
(in dollars)

	2007	2006
Program Costs:		
Adjudication:		
Gross Costs	$ 37,114,292	$ 35,973,866
Less: Earned Revenue	2,602,858	2,578,950
Net Program Costs	$ 34,511,434	$ 33,394,916
Management Support:		
Gross Costs	$ 4,292,847	$ 4,273,581
Less: Earned Revenue	-	-
Net Program Costs	$ 4,292,847	$ 4,273,581
Merit Systems Studies		
Gross Costs	$ 1,879,636	$ 1,856,797
Less: Earned Revenue	-	-
Net Program Costs	$ 1,879,636	$ 1,856,797
Net Cost of Operations	$ 40,683,917	$ 39,525,294

The accompanying notes are an integral part of these statements.

U. S. MERIT SYSTEMS PROTECTION BOARD
STATEMENT OF CHANGES IN NET POSITION
For the years ended September 30, 2007 and 2006
(in dollars)

	2007	2006
Cumulative Results of Operations:		
Beginning Balances	$ 2,698,669	$ 4,738,155
Budgetary Financing Sources:		
Appropriations Used	$ 36,672,065	$ 35,347,396
Other Financing Sources (Non-Exchange):		
Imputed Financing Sources	2,148,181	2,138,410
Total Financing Sources	38,820,246	37,485,806
Net Cost of Operations	40,683,917	39,525,294
Net Changes	$ (1,863,671)	$ (2,039,488)
Cumulative Results of Operations	$ 834,998	$ 2,698,667
Unexpended Appropriations:		
Beginning Balances	$ 5,280,388	$ 5,719,828
Budgetary Financing Sources:		
Appropriations Received	$ 36,063,318	$ 35,600,000
Other Adjustments	(211,325)	(692,043)
Appropriations Used	(36,672,065)	(35,347,396)
Total Budgetary Financing Sources	$ (820,072)	$ (439,439)
Total Unexpended Appropriations	$ 4,460,316	$ 5,280,389
Net Position	$ 5,295,314	$ 7,979,056

The accompanying notes are an integral part of these statements.

U. S. MERIT SYSTEMS PROTECTION BOARD
STATEMENT OF BUDGETARY RESOURCES
For the years ended September 30, 2007 and 2006
(in dollars)

	2007	2006
Budgetary Resources:		
Unobligated Balance Brought Forward, October 1:	$ 2,380,717	$ 2,308,406
Recoveries of Prior Year Unpaid Obligations	360,796	273,906
Budget Authority		
Appropriation	36,063,318	35,600,000
Spending Authority from Offsetting Collections		
Earned		
Collected	2,602,858	2,578,950
Permanently Not Available	211,325	692,043
Total Budgetary Resources	$ 41,196,364	$ 40,069,219
Status of Budgetary Resources:		
Obligations Incurred		
Direct	$ 36,235,385	$ 35,109,552
Reimbursable	2,602,858	2,578,950
Unobligated Balance		
Apportioned	312,680	205,433
Unobligated Balance Not Available	2,045,441	2,175,284
Total Status of Budgetary Resources	$ 41,196,364	$ 40,069,219
Change in Obligated Balance:		
Obligated Balance, Net		
Unpaid Obligations, Brought Forward, October 1	$ 4,964,535	$ 5,288,175
Obligations Incurred Net	38,838,243	37,688,502
Less: Gross Outlays	39,134,864	37,738,235
Less: Recoveries of Prior Year Unpaid		
Obligations, Actual	360,796	273,906
Obligated Balance, Net, End of Period		
Unpaid Obligations	4,307,118	4,964,536
Total, Unpaid Obligated Balance, Net, End of Period	$ 4,307,118	$ 4,964,536
Net Outlays:		
Net Outlays:		
Gross Outlays	$ 39,134,864	$ 37,738,235
Less: Offsetting Collections	2,602,858	2,578,950
Net Outlays	$ 36,532,006	$ 35,159,285

The accompanying notes are an integral part of these statements.

U.S. MERIT SYSTEMS PROTECTION BOARD
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The financial statements have been prepared to report the financial position, net cost of operations, changes in net position, and status and availability of budgetary resources of the U.S. Merit Systems Protection Board (MSPB). The statements are a requirement of the Chief Financial Officers Act of 1990, the Government Management Reform Act of 1994, the Accountability of Tax Dollars Act of 2002 and the Office of Management and Budget (OMB) Bulletin Number 06-03, *Audit Requirements for Federal Financial Statements*. They have been prepared from, and are fully supported by, the books and records of MSPB in accordance with the hierarchy of accounting principles generally accepted in the United States of America, standards approved by the principals of the Federal Accounting Standards Advisory Board (FASAB), OMB Circular A-136, *Financial Reporting Requirements*, and MSPB accounting policies which are summarized in this note. These statements, with the exception of the Statement of Budgetary Resources, are different from financial management reports, which are also prepared pursuant to OMB directives that are used to monitor and control MSPB's use of budgetary resources.

The statements consist of the Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, and the Statement of Budgetary Resources. In accordance with OMB Circular A-136, the financial statements and associated notes are presented on a comparative basis. Unless specified otherwise, all amounts are presented in dollars.

B. Reporting Entity

MSPB is an independent, quasi-judicial agency in the Executive branch that serves as the guardian of federal merit systems. The Board was established by the Civil Service Reform Act of 1978 (CSRA) with a mission of ensuring that employees are protected against abuses by agency management, that Executive branch agencies make employment decisions in accordance with the merit systems principles, and that federal merit systems are kept free of prohibited personnel practices.

MSPB has rights and ownership of all assets reported in these financial statements. MSPB does not possess any non-entity assets.

C. Budgets and Budgetary Accounting

Congress usually enacts appropriations to permit MSPB to incur obligations for specified purposes. In fiscal years 2007 and 2006, MSPB was accountable for General Fund appropriations. MSPB recognizes budgetary resources as assets when cash (funds held by the U.S. Treasury) is made available through the Department of Treasury General Fund warrants.

D. Basis of Accounting

Transactions are recorded on both an accrual accounting basis and a budgetary basis. Under the accrual method, revenues are 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 requirements on the use of federal funds.

E. Revenues & Other Financing Sources

Congress enacts annual and multi-year appropriations to be used, within statutory limits, for operating and capital expenditures. Additional amounts are obtained from service fees and reimbursements from other government entities and the public.

Appropriations are recognized as a financing source when expended. Appropriations expensed for capitalized property and equipment are recognized as expenses when an asset is consumed in operations.

Revenues from service fees associated with reimbursable agreements are recognized concurrently with the recognition of accrued expenditures for performing the services.

The MSPB recognizes as an imputed financing source the amount of accrued pension and post-retirement benefit expenses for current employees paid on our behalf by the Office of Personnel Management (OPM).

F. Taxes

MSPB, as a Federal entity, is not subject to Federal, State, or local income taxes, and, accordingly, no provision for income taxes has been recorded in the accompanying financial statements.

G. Fund Balance with Treasury

The U.S. Treasury processes cash receipts and disbursements. Funds held at the Treasury are available to pay agency liabilities. MSPB does not maintain cash in commercial bank accounts or foreign currency balances. Foreign currency payments are made either by Treasury or the Department of State and are reported by MSPB in the U.S. dollar equivalents.

H. Accounts Receivable

Accounts receivable consists of amounts owed to MSPB by other Federal agencies and the public. Amounts due from Federal agencies are considered fully collectible. Accounts receivable from the public include reimbursements from employees. An allowance for uncollectible accounts receivable from the public is established when either (1) based upon a review of outstanding accounts and the failure of all collection efforts, management determines that collection is unlikely to occur considering the debtor's ability to pay, or (2) an account for which no allowance has been established is submitted to the Department of the Treasury for collection, which takes place when it becomes 180 days delinquent. Accounts receivable consisted entirely from employees, which were $4,493 and $983 as of September 30, 2007 and 2006, respectively.

I. Property, Plant and Equipment (PP&E), Net

MSPB's property, plant and equipment is recorded at original acquisition cost and is depreciated using the straight-line method over the estimated useful life of the asset. Major alterations and renovations are capitalized, while maintenance and repair costs are charged to expense as incurred. MSPB's capitalization threshold is $50,000 for individual purchases and $500,000 for bulk purchases. Service lives for office equipment is 10 years, internal use software lives are 5 years and leasehold improvements are depreciated over the period of the lease. See Note 3 for additional information.

J. Advances and Prepaid Charges

Advance payments are generally prohibited by law. There are some exceptions, such as reimbursable agreements, subscriptions and payments to contractors and employees. Payments made in advance of the receipt of goods and services are recorded as advances or prepaid charges at the time of prepayment and recognized as expenses when the related goods and services are received.

K. Liabilities

Liabilities covered by budgetary or other resources are those liabilities for which Congress has appropriated funds or funding is otherwise available to pay amounts due.

Liabilities not covered by budgetary or other resources represent amounts owed in excess of available Congressionally appropriated funds or other amounts. The liquidation of liabilities not covered by budgetary or other resources is dependent on future Congressional appropriations or other funding. Intragovernmental liabilities are claims against MSPB by other Federal agencies. Liabilities not covered by budgetary resources on the Balance Sheet are equivalent to amounts reported as Components requiring or generating resources on the Reconciliation of Net Cost to Budget. Additionally, the Government, acting in its sovereign capacity, can abrogate liabilities.

L. Accounts Payable

Accounts payable consists of amounts owed to other Federal agencies and the public.

M. Annual, Sick, and Other Leave

Annual leave is accrued as it is earned, and the accrual is reduced as leave is taken. The balance in the accrued leave account is adjusted to reflect current pay rates. Liabilities associated with other types of vested leave, including compensatory, restored leave, and sick leave in certain circumstances, are accrued at year-end, based on latest pay rates and unused hours of leave. Funding will be obtained from future financing sources to the extent that current or prior year appropriations are not available to fund annual and other types of vested leave earned but not taken. Nonvested leave is expensed when used. Any liability for sick leave that is accrued but not taken by a Civil Service Retirement System (CSRS)-covered employee is transferred to the Office of Personnel Management upon the retirement of that individual. No credit is given for sick leave balances upon the retirement of Federal Employee's Retirement System (FERS)-covered employees.

N. Accrued Workers' Compensation

A liability is recorded for actual and estimated future payments to be made for workers' compensation pursuant to the Federal Employees' Compensation Act (FECA). The actual costs incurred are reflected as a liability because MSPB will reimburse the Department of Labor (DOL) two years after the actual payment of expenses. Future appropriations will be used for the reimbursement to DOL. The liability consists of (1) the net present value of estimated future payments calculated by the DOL, and (2) the unreimbursed cost paid by DOL for compensation to recipients under the FECA.

O. Retirement Plans

MSPB employees participate in either the Civil Service Retirement System (CSRS) or the Federal Employees' Retirement System (FERS). The employees who participate in CSRS are beneficiaries of MSPB's matching contribution, equal to seven percent of pay, distributed to their annuity account in the Civil Service Retirement and Disability fund. The employees who participate in FERS are beneficiaries of MSPB's contribution, equal to eleven and two tenths percent of pay, distributed to their annuity account in the Basic Benefit Plan.

FERS and Social Security cover most employees hired after December 31, 1983. Employees hired prior to January 1, 1987 elected to join FERS and Social Security, or remain in CSRS. Employees hired as of January 1, 1987 are automatically covered by FERS. FERS offers a savings plan (aside from the Basic Benefit Plan mentioned in above paragraph) to which MSPB automatically contributes one percent of pay and matches any employee contribution up to an additional four percent of pay. For FERS participants, MSPB also contributes the employer's matching share of Social Security.

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

MSPB recognizes the imputed cost of pension and other retirement benefits during the employees' active years of service. OPM actuaries determine pension cost factors by calculating the value of pension benefits expected to be paid in the future and communicates these factors to MSPB for current period expense reporting. OPM also provides information regarding the full cost of health and life insurance benefits. MSPB recognized the offsetting revenue as imputed financing sources to the extent these expenses will be paid by OPM.

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

P. Use of Estimates

Management has made certain estimates when reporting assets, liabilities, revenue, and expenses, and in the note disclosures. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. Significant estimates include (a) year-end accruals of accounts payable, and (b) accrued workers' compensation.

Q. Imputed Costs/Financing Sources

Federal Government entities often receive goods and services from other Federal Government entities without reimbursing the providing entity for all the related costs. In addition, Federal Government entities also incur costs that are paid in total or in part by other entities. An imputed financing source is recognized by the receiving entity for costs that are paid by other entities. MSPB recognized imputed costs and financing sources in fiscal years 2007 and 2006 to the extent directed by OMB.

R. Contingencies

Liabilities are deemed contingent when the existence or amount of the liability cannot be determined with certainty pending the outcome of future events. MSPB recognizes contingent liabilities, in the accompanying balance sheet and statement of net cost, when it is both probable and can be reasonably estimated. MSPB discloses contingent liabilities in the notes to the financial statements when the conditions for liability recognition are not met or when a loss from the outcome of future events is more than remote. In some cases, once losses are certain, payments may be made from the Judgment Fund maintained by the U.S. Treasury rather than from the amounts appropriated to MSPB for agency operations. Payments from the Judgment Fund are recorded as an "Other Financing Source" when made. There are no contingencies that require disclosure.

S. Expired Accounts and Cancelled Authority

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

T. Reclassification

Certain fiscal year 2006 balances have been reclassified, retitled, or combined with other financial statement line items for consistency with current year presentation. Under SFFAS 7, OMB has reclassified the Statement of Financing to be presented in a note as Reconciliation of Net Cost of Operations to Budget.

NOTE 2. FUND BALANCE WITH TREASURY

Fund balance with Treasury account balances as of September 30, 2007 and 2006 were:

Fund Balances:

	2007	2006
Appropriated Funds	$ 6,665,239	$ 7,345,253

Status of Fund Balance with Treasury:

	2007	2006
Unobligated Balance		
Available	$ 312,680	$ 205,433
Unavailable	2,045,441	2,175,284
Obligated Balance Not Yet Disbursed	4,307,118	4,964,536
Total	$ 6,665,239	$ 7,345,253

Restricted unobligated fund balances represent the amount of appropriations for which the period of availability for obligation has expired. These balances are available for upward adjustments of obligations incurred only during the period for which the appropriation was available for obligation or for paying claims attributable to the appropriations.

NOTE 3. GENERAL PROPERTY, PLANT, AND EQUIPMENT

Property, plant and equipment account balances as of September 30, 2007 and 2006 were as follows:

Schedule of Property, Plant and Equipment as of September 30, 2007

Description	Acquisition Cost	Accumulated Depreciation	Net Book Value
Leasehold Improvements	$ 1,475,924	$ (1,008,828)	$ 467,096
Office Equipment	73,776	(59,943)	13,833
Internal Use Software	9,415,576	(6,827,278)	2,588,298
Construction In Progress	163,350	-	163,350
Total	$11,128,626	$ (7,896,049)	$ 3,232,577

Schedule of Property, Plant and Equipment as of September 30, 2006

Description	Acquisition Cost	Accumulated Depreciation	Net Book Value
Leasehold Improvements	$ 1,332,563	$ (813,257)	$ 519,306
Office Equipment	73,776	(52,565)	21,211
Internal Use Software	9,522,385	(5,050,972)	4,471,413
Construction In Progress	69,000	-	69,000
Total	$10,997,724	$ (5,916,794)	$ 5,080,930

Construction In Progress consists of Leasehold Improvement.

NOTE 4. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

The liabilities on MSPB's Balance Sheet as of September 30, 2007 and 2006, 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. Other liabilities not covered by budgetary resources consist of unfunded leave and unfunded FECA liabilities. Unfunded leave balances are $2,293,385 and $2,293,386, and unfunded FECA balances are $108,687 and $89,859, as of September 30, 2007 and 2006, respectively.

NOTE 5. OPERATING LEASES

SPB occupies office space or warehouse space at four locations with lease agreements that are accounted for as operating leases. The first lease for office space (Denver) began on November 1, 2001 and expires on December 31, 2011. Annual lease payments of $101,837 are increased annually by two percent of the Base Rental Rate (BRR) in effect for the prior lease year. The second lease for office space (Washington Regional Alexandria Office) began on September 15, 2000 and expires on September 14, 2010. Annual lease payments of $166,019 are increased annually by two and one half percent of the BRR in effect for the prior lease year, except in the sixth year. In the sixth year of the lease, the BRR shall increase by $1.50 per square foot. The third agreement (office headquarters) began on June 1, 2000 and expires on May 31, 2010. Annual lease payments of $1,506,440 are increased annually by three percent of the BRR in effect for the prior lease year, except in the sixth year. In the sixth year of the lease, the BRR shall increase by $2.50 per square foot. The fourth lease (warehouse space) began on April 1, 2003 and expires on March 31, 2013. Annual lease payments of $23,180 are increased by four percent of the BRR in effect for the prior lease year.

The operating costs escalate by the Consumer Price Index and MSPB pays its pro-rata share of any property tax increases.

Schedule of Future Minimum Lease Payments

2008	$ 2,326,134
2009	2,394,147
2010	1,748,455
2011	147,482
2012	61,553
2013	16,496
Total Future Minimum Lease Payments	$ 6,694,267

NOTE 6. INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUE

Intragovernmental costs and intragovernmental exchanges revenue represent goods and services exchange transactions made between two reporting entities within the Federal government, and are in contrast to those with non-federal entities (the public). Such costs and revenue are summarized as follows:

	2007	2006
Adjudication		
Intragovernmental Costs	$ 9,044,813	$ 8,431,258
Public Costs	28,069,479	27,542,608
Total Program Costs	$ 37,114,292	$ 35,973,866
Intragovernmental Earned Revenue	2,602,858	2,578,950
Net Program Costs	$ 34,511,434	$ 33,394,916
Management Support		
Intragovernmental Costs	$ 949,696	$ 895,834
Public Costs	3,343,151	3,377,747
Total Program Costs	$ 4,292,847	$ 4,273,581
Merit Systems Studies		
Intragovernmental Costs	$ 236,891	$ 270,653
Public Costs	1,642,745	1,586,144
Total Program Costs	$ 1,879,636	$ 1,856,797
Total Intragovernmental Costs	$ 10,231,400	$ 9,597,745
Total Public Costs	33,055,375	32,506,499
Total Costs	$ 43,286,775	$ 42,104,244
Less: Total Intragovernmental Earned Revenue	2,602,858	2,578,950
Total Net Costs	$ 40,683,917	$ 39,525,294

NOTE 7. OPERATING/PROGRAM COSTS

Cost by major budgetary object classification as of September 30, 2007 and 2006 are as follows:

Budgetary Object Classifications	2007	2006
Personnel	$ 24,887,383	$ 24,221,715
Benefits	7,839,515	7,507,367
Travel	472,881	480,126
Transportation	128,101	67,250
Rents, Communication & Utilities	3,612,256	3,605,746
Printing	100,563	175,628
Other Services	3,339,810	2,862,082
Supplies and Materials	260,336	321,563
Equipment	2,429,313	2,665,410
Total	$ 43,286,775	$ 42,104,244

NOTE 8. IMPUTED FINANCING SOURCES

MSPB recognizes as imputed financing the amount of accrued pension and post-retirement benefit expenses for current employees. The assets and liabilities associated with such benefits are the responsibility of the administering agency, the Office of Personnel Management (OPM). Amounts paid from the U.S. Treasury's Judgment Fund in settlement of claims or court assessments against MSPB are also recognized as imputed financing. Total imputed financing sources for the years ended September 30, 2007 and 2006, respectively are as follows:

	2007	2006
Office of Personnel Management	$ 2,146,369	$ 2,138,410
Treasury Judgment Fund	1,812	-
Total Imputed Financing Sources	$ 2,148,181	$ 2,138,410

NOTE 9. EXPLANATION OF DIFFERENCES BETWEEN THE STATEMENTS OF BUDGETARY RESOURCE AND THE BUDGET OF THE UNITED STATES GOVERNMENT

Statement of Federal Financial Accounting Standards No. 7, Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting, calls for explanations 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). However, the President's Budget that will include fiscal year 2007 actual budgetary execution information has not yet been published. The President's 2009 Budget is scheduled for publication in February 2008 and will be available then at the OMB web site: http://www.whitehouse.gov/omb. The 2008 Budget of the United States Government, with the Actual Column completed for 2006, has been reconciled and there were no material differences.

NOTE 10. UNDELIVERED ORDERS AT THE END OF THE PERIOD

Beginning with fiscal year 2006, the format of the Statement of Budgetary Resources has changed and the amount of undelivered orders at the end of the period is no longer required to be reported on the face of the statement. Statement of Federal Financial Accounting Standards No. 7, Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting, states that the amount of budgetary resources obligated for undelivered orders at the end of the period should be disclosed. MSPB's budgetary resources obligated for undelivered orders are $2,102,195 and $2,899,671 for the years ended September 30, 2007 and 2006, respectively.

NOTE 11. CUSTODIAL ACTIVITY

MSPB's custodial collection primarily consists of Freedom of Information Act requests. While these collections are considered custodial, they are not primary to the mission of MSPB nor material to the overall financial statements. MSPB's total custodial collections are $483 and $687 for the years ended September 30, 2007, and 2006, respectively.

NOTE 12. RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

MSPB has reconciled its budgetary obligations and non-budgetary resources available to its net cost of operations.

	2007	2006
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations incurred	$ 38,838,243	$ 37,688,502
Less: Spending Authority From Offsetting Collections and Recoveries	2,963,654	2,852,856
Obligations Net of Offsetting Collections and Recoveries	35,874,589	34,835,646
Net Obligations	35,874,589	34,835,646
Other Resources		
Imputed Financing From Costs Absorbed By Others	2,148,181	2,138,410
Net Other Resources Used to Finance Activities	2,148,181	2,138,410
Total Resources Used to Finance Activities	$ 38,022,770	$ 36,974,056
Resources Used to Finance Items Not Part of the Net Cost of Operations		
Change In Budgetary Resources Obligated For Goods, Services and Benefits Ordered But Not Yet Provided	$ (797,476)	$ (511,750)
Resources That Fund Expenses Recognized In Prior Periods	-	60,404
Resources That Finance the Acquisition of Assets	237,711	69,000
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	(559,765)	(382,346)
Total Resources Used to Finance the Net Cost of Operations	$ 38,582,535	$ 37,356,402
Components of the Net Cost of Operations That Will Not Require or Generate Resources in the Current Period		
Components Requiring or Generating Resources in Future Periods		
Increase In Annual Leave Liability	$ -	$ 84,844
Other	18,828	-
Total Components of Net Cost of Operations That Will Require or Generate Resources In Future Periods	18,828	84,844
Components Not Requiring or Generating Resources:		
Depreciation and Amortization	2,086,064	2,075,707
Other	(3,510)	8,341
Total Components of Net Cost of Operations That Will Not Require or Generate Resources	2,082,554	2,084,048
Total Components of Net Cost of Operations That Will Not Require or Generate Resources In The Current Period	2,101,382	2,168,892
Net Cost of Operations	$ 40,683,917	$ 39,525,294

Independent Auditor's Report on Internal Control over Financial Reporting

CERTIFIED PUBLIC ACCOUNTANTS AND MANAGEMENT CONSULTANTS

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

U.S. Merit Systems Protection Board
Washington, D.C.

We have audited the financial statements of the U.S. Merit Systems Protection Board (MSPB) as of and for the year ended September 30, 2007 and have issued our report thereon dated November 9, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; and the standards applicable to financial audits contained in U.S 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.*

In planning and performing our audit, we considered the MSPB's internal control over financial reporting by obtaining an understanding of the MSPB's internal control, determined whether internal controls had been placed in operation, assessed control risk, and performed 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 No. 07-04. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982, such as those controls relevant to ensuring efficient operations. The objective of our audit was not to provide an opinion on internal control and therefore, we do not express an opinion on internal control.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be significant deficiencies. Under standards issued by the American Institute of Certified Public Accountants and OMB Bulletin No. 07-04, a significant deficiency is a deficiency in internal control, or a combination of 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 more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be a material weakness. A material weakness is a significant deficiency, or combination of significant deficiencies, that result in a more than remote likelihood that a material misstatement of the financial statements will not be prevented or detected. Because of inherent limitations in internal controls, misstatements, losses, or non-compliance may nevertheless occur and not be detected. However, we noted no matters involving the internal control and its operation that we considered to be significant deficiencies or material weaknesses as defined above.

LARGO
9200 BASIL COURT, SUITE 400
LARGO, MD 20774
(240) 492-1400 • FAX: (301) 636-6013
mail@brownco-cpas.corn

RICHMOND
100 WEST FRANKLIN STREET, SUITE 102
RICHMOND, VA 23220
(804) 648-2017 • FAX: (804) 648-2018
tdbrowncocpas@aol.com

In addition, with respect to internal control objective related to the performance measures included in the "Management's Discussion & Analysis," we obtained an understanding of the design of internal controls relating to the existence and completeness assertions, and determined whether they have been placed in operation as required by OMB Bulletin No. 07-04. Our procedures were not designed to provide an opinion on internal control over reported performance measures, and, accordingly, we do not express an opinion on such controls.

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

Bean & Company

Largo, Maryland
November 9, 2007

LARGO
9200 BASIL COURT, SUITE 400
LARGO, MD 20774
(240) 492-1400 • FAX: (301) 636-6013
mail@brownco-cpas.corn

RICHMOND
100 WEST FRANKLIN STREET, SUITE 102
RICHMOND, VA 23220
(804) 648-2017 • FAX: (804) 648-2018
tdbrowncocpas@aol.com

Independent Auditor's Report on Compliance with Laws and Regulations

CERTIFIED PUBLIC ACCOUNTANTS AND MANAGEMENT CONSULTANTS

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

U.S. Merit Systems Protection Board
Washington, D.C.

We have audited the financial statements of the U.S. Merit Systems Protection Board (MSPB) as of and for the year ended September 30, 2007, and have issued our report thereon dated November 9, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in U.S. 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.*

The management of the MSPB is responsible for complying with laws and regulations applicable to the MSPB. As part of obtaining reasonable assurance about whether the MSPB's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, 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 No. 07-04. We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to the MSPB.

The results of our tests of compliance disclosed no reportable instances of noncompliance with other laws and regulations discussed in the preceding paragraph that are required to be reported under U.S. Government Auditing Standards or OMB Bulletin No. 07-04.

Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit, and, accordingly, we do not express such an opinion. However, we noted no noncompliance with laws and regulations, which could have a direct and material effect on the determination of financial statement amounts.

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

Brown & Company

Largo, Maryland
November 9, 2007

LARGO
9200 BASIL COURT, SUITE 400
LARGO, MD 20774
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Appendix A: Abbreviations and Acronyms

ADR	Alternative Dispute Resolution
AJ	Administrative Judge
ALJ	MSPB Office of Administrative Law Judge
APHIS	USDA Animal Plant and Health Inspection Service
BPD	Department of the Treasury Bureau of the Public Debt
CMS	Case Management System
CPDF	OPM's Central Personnel Data File
CSRA	Civil Service Reform Act
EEO	MSPB Office of Equal Employment Opportunity
e-OPF	Electronic Official Personnel Folder
FAM	MSPB Office of Financial and Administrative Management
FEB	Federal Executive Board
FISMA	Federal Information Security Management Act
FOIA	Freedom of Information Act
FY	Fiscal Year
GPRA	Government Performance and Results Act
HQ	MSPB Headquarters
HR	Human Resources
IDP	Individual Development Plans
IPMA	International Personnel Management Association
IPV6	Internet Protocol Version 6
IRA	Individual Rights of Action
IRM	MSPB Office of Information Resources Management
LM	Law Manager
LOB	OPM's Line of Business initiative
MAP	Mediation Appeals Program
MPS	Merit Principles Survey
MSPB	Merit Systems Protection Board
NFC	USDA National Finance Center
OAC	MSPB Office of Appeals Counsel
OCB	MSPB Office of the Clerk of the Board
OGC	MSPB Office of General Counsel
OMB	Office of Management and Budget
OPE	MSPB Office of Policy and Evaluation
OPF	Official Personnel Folder
OPM	Office of Personnel Management
ORO	MSPB Office of Regional Operations
PAR	Performance and Accountability Report
PFR	Petition for Review
RIF	Reduction in Force
RO	Regional Office
SES	Senior Executive Service
VERA	Voluntary Early Retirement Authority
VSIP	Voluntary Separation Incentive Program
WPA	Whistleblower Protection Act