U.S. Merit Systems Protection Board

Agency Financial Report Fiscal Year 2017

November 2017

Table of Contents

Message from the Vice Chairman **1**

How to Use This Report **2**

The Merit Systems Protection Board 3
About MSPB 3
The MSPB Mission 3
Board Organization 3
MSPB Program Offices and Their Functions 3
Organization Chart 5

Management Discussion and Analysis **6**
Interim Summary of MPSB's FY 2017 Program Performance 6
Management Assurances 9

Other Information **11**
Summary of Financial Statement Audit and Management Assurances 11
Civil Monetary Penalties' Adjustments for Inflation 12

Financial Section **13**
Message from the Chief Financial Officer 13
Notes on the Financial Statements 14

Independent Auditor's Report on the Financial Statements

Financial Statements

Message from the Vice Chairman

U.S. MERIT SYSTEMS PROTECTION BOARD
Washington DC 20036

Office of the Vice Chairman

I am pleased to present the Merit Systems Protection Board's (MSPB) Agency Financial Report (AFR) for fiscal year (FY) 2017 and to report that as of September 30, 2017, MSPB has received an unmodified opinion on its financial statements. The AFR is an opportunity for us to highlight the agency's accomplishments and challenges in FY 2017. This report also provides information on our financial management and performance, and provides a window of transparency for our key stakeholders and the American public to assess our financial information and performance.

Following an assessment of MSPB's comprehensive management control program, I certify, with reasonable assurance, that our financial management systems have been found to be in substantial compliance with the Federal Financial Management Improvement Act (FFMIA) of 1996. In accordance with Office of Management and Budget (OMB) Circulars A-136 and A-11, the financial and performance data published in this report are substantially complete and reliable.

Respectfully,

Mark A. Robbins*
Vice Chairman
November 15, 2017

* Because the office of Chairman currently is vacant, the functions of the chief executive and administrative officer of the Merit Systems Protection Board are vested in the Vice Chairman pursuant to 5 U.S.C. § 1203(b).

How to Use This Report

The Agency Financial Report (AFR) presents financial information, as well as relevant performance information, on the U.S. Merit Systems Protection Board's operations. The report was prepared in accordance with the Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*, and covers activities from October 1, 2016 through September 30, 2017.

MSPB has chosen to produce an AFR and an Annual Performance Report (APR). MSPB will submit its FY 2017 APR with its Congressional Budget Justification and post it on the agency's website at http://www.mspb.gov at the time the President's FY 2019 Budget is submitted to Congress in 2018.

This report is organized into the following major components:

The Merit Systems Protection Board
This section provides an overview of the MSPB. It discusses the agency's mission, board organization, program offices and their functions, and organization chart.

Management Discussion and Analysis (MD&A)
This section provides an overview of the performance information contained in the Interim FY 2017 Performance results compared to the Annual Performance Plan for FY 2017, which was developed under MSPB's Strategic Plan for FY 2017-2019. It also includes relevant performance information related to the MSPB's strategic and management objectives.

Management Assurances
This section provides an overview of MSPB's management commitment to excellence and the importance of strong financial systems and internal controls to ensure accountability, integrity, and reliability. Management, administrative, and financial system controls have been developed to ensure the following:

- 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 assets is maintained.

Financial Section
This section contains details of MSPB's financial position in FY 2017 including a message from the Chief Financial Officer (CFO) followed by the notes on the financial statements, independent auditor's report on the financial statements, financial statements, and notes to the financial statements.

The Merit Systems Protection Board

About MSPB

MSPB has its origin in the Pendleton Act of 1883, which established the Civil Service Commission (CSC) and a merit-based employment system for the Federal Government. The Pendleton Act was passed after the assassination of President Garfield by a disgruntled Federal job seeker and grew out of the 19th century reform movement to curtail the excesses of political patronage in government and ensure a stable highly qualified workforce to serve the public. Over time, it became clear that the CSC could not properly, adequately, and simultaneously set managerial policy, protect the merit systems, and adjudicate appeals. Concern over the inherent conflict of interest in the CSC's role as both rule-maker and judge was a principal motivating factor behind the passage of the Civil Service Reform Act of 1978 (CSRA). The CSRA replaced the CSC with three new agencies: MSPB as the successor to the Commission;[1] the Office of Personnel Management (OPM) to serve as the President's agent for Federal workforce management policy and procedure; and the Federal Labor Relations Authority (FLRA) to oversee Federal labor-management relations. The CSRA also codified for the first time the values of the merit systems as the MSPs (Merit System Principles) and defined the PPPs (Prohibited Personnel Practices).[2]

The MSPB Mission

The mission of the MSPB is to *protect the Federal merit systems and the rights of individuals within those systems*. MSPB carries out its statutory responsibilities and authorities primarily by adjudicating individual employee appeals, enforcing its decisions, conducting objective, merit systems studies, and reviewing the rules, regulations and significant actions of OPM to assess the degree to which those actions support adherence to the merit principles and do not lead to the commission of PPP's.

Board Organization

The agency has three appointed Board members and was authorized 235 Full-time Equivalents (FTE) with offices in Washington, D.C. (headquarters) and six regional and two field offices that are located throughout the United States.

MSPB Program Offices and Their Functions

The three **Board Members** adjudicate the cases brought to MSPB. The bipartisan Board consists of the Chairman, Vice Chairman, and Member, with no more than two of its three members from the same political party. Board members are nominated by the President, confirmed by the Senate, and serve overlapping, non-renewable 7-year terms. The **Chairman**, by statute, is the chief executive and administrative officer of MSPB. The Office Directors report to the Chairman through the **Executive Director**.

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 ALJs, MSPB employee appeals, and other cases assigned by MSPB. The functions of

[1] Bogdanow, M., and Lanphear, T., History of the Merit Systems Protection Board, Journal of the Federal Circuit Historical Society, Volume 4, 2010.

[2] Title 5 U.S.C. § 2301 and Title 5 U.S.C. § 2302, respectively.

this office are currently performed by ALJs at the U. S. Coast Guard, Federal Trade Commission, and Environmental Protection Agency under reimbursable interagency agreements.

The **Office of Appeals Counsel** conducts legal research and prepares proposed decisions for the Board in cases where a party petitions for review (PFR) of an administrative judge's (AJ) initial decision and in most other cases decided by the Board. The office 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, policy memoranda, and advice to the Board on legal issues.

The **Office of the Clerk of the Board** receives and processes cases filed at MSPB headquarters (HQ), rules on certain procedural matters, and issues MSPB 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 systems, legal research systems, and the Government in the Sunshine Act program.

The **Office of Equal Employment Opportunity** plans, implements, and evaluates MSPB's equal employment opportunity programs. It processes complaints of alleged discrimination brought by agency employees and provides advice and assistance on affirmative employment initiatives to MSPB's managers and supervisors.

The **Office of Financial and Administrative Management** 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, including review of agency internal controls. It also administers the agency's cross-servicing agreements with the U.S. Department of Agriculture, National Finance Center (NFC) for payroll services, U.S. Department of the Treasury, Bureau of Fiscal Service (BFS) for accounting services, and U.S. Department of Agriculture, Animal and Plant Health Inspection Service (APHIS) for human resources management services.

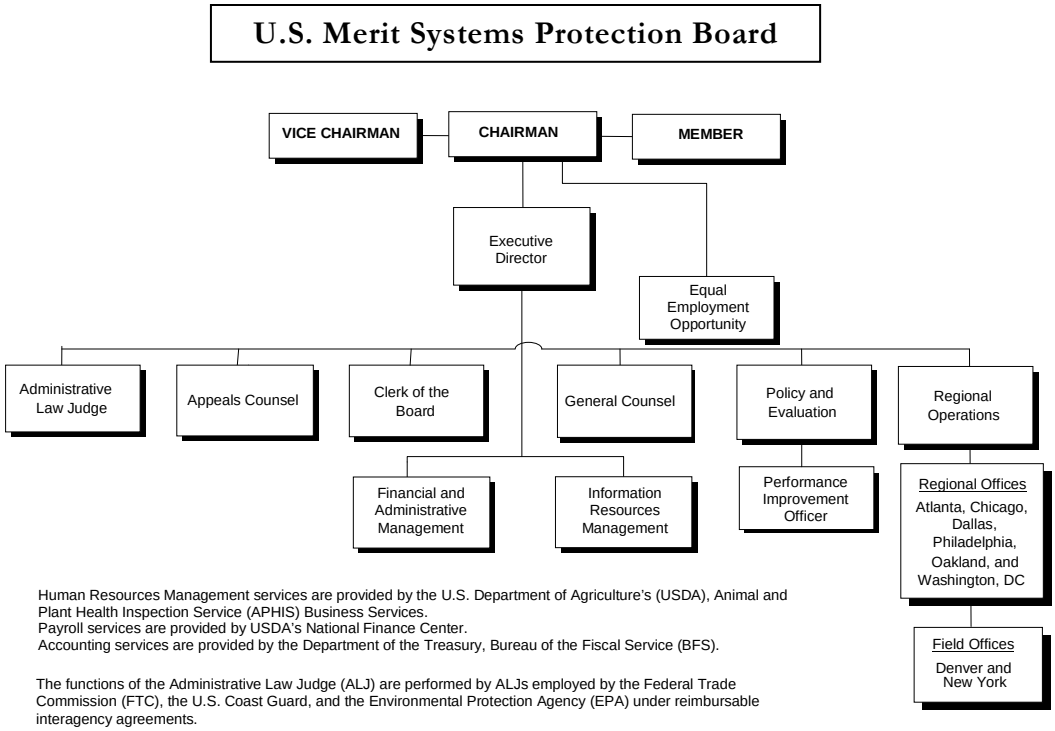
The **Office of the General Counsel**, as legal counsel to MSPB, advises the Board and MSPB offices on a wide range of legal matters arising from day-to-day operations. The office represents MSPB in litigation; prepares proposed decisions for the Board to enforce a final MSPB decision or order, in response to requests to review OPM regulations, and for other assigned cases; conducts the agency's PFR settlement program; and coordinates the agency's legislative policy and congressional relations functions. The office drafts regulations, conducts MSPB's ethics program, and plans and directs audits and investigations.

The **Office of Information Resources Management** 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** carries out MSPB's statutory responsibility to conduct special studies of the civil service and other Federal merit systems. Reports of these studies are sent 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. The office reviews and reports on the significant actions of OPM. The office also conducts program evaluations for the agency and has responsibility for preparing MSPB's strategic and performance plans and performance reports required by the Government Performance and Results Modernization Act.

The **Office of Regional Operations** oversees the agency's six regional and two field offices, which receive and process appeals and related cases. It also manages MSPB's Mediation Appeals Program (MAP). AJs in the regional and field offices are responsible for adjudicating assigned cases and for issuing fair, well-reasoned, and timely initial decisions.

Organization Chart



Management Discussion and Analysis

MSPB has chosen to produce an Agency Financial Report (AFR) and an Annual Performance Report (APR). MSPB will submit its final FY 2017 APR with its Congressional Budget Justification and post it on the MSPB web site at www.mspb.gov at the time the President's FY 2019 Budget is submitted to Congress in 2018.

Interim Summary of MSPB's FY 2017 Program Performance

This performance summary contains interim FY 2017 performance results and initial judgments related to the achievement of our objectives. This information is organized to align with the Annual Performance Plan for FY 2017, which was developed under MSPB's Strategic Plan for FY 2016 – 2018. MSPB is continuing to verify and validate its performance results for FY 2017. Final performance results and final judgments on the achievement of objectives will be published in the FY 2017 Annual Performance Report (APR) scheduled for release in February 2018.

Strategic Objective 1A: Provide understandable, high-quality resolution of appeals, supported by fair and efficient adjudication and alternative dispute resolution (ADR) processes. Interim results indicate that this objective was **Partially Met**. MSPB exceeded its adjudication performance measure targets related to decision quality for initial appeals and cases left unchanged by the U.S. Court of Appeals for the Federal Circuit. We did not set a goal for average processing time for initial appeals but achieved the target for the interim indicator, closing 98 percent of cases on hand as of October 1, 2016. We also implemented an automated electronic process to collect customer service feedback on the adjudication process in the regional and field offices and on the MAP. The target for average processing time for PFRs was defined under the assumption of normal operations at HQ and the continued release of PFR decisions over the entire year. However, the departure of former Chairman Susan T. Grundmann in early January 2017meant that there was not a quorum of Board members to vote on and release PFR decisions from early January to the end of September 2017. We did continue to process cases at HQ and the Vice Chairman voted on hundreds of PFR cases, which await consideration by additional members when nominated and confirmed. However, we were unable to rate the target for average processing time for PFRs due to the lack of quorum.

Strategic Objective 1B: Enforce timely compliance with MSPB decisions. Interim results indicate that this objective was **Not Rated (No Quorum)**. The target was set with the assumption that we would release decisions in enforcement cases at HQ for the entire year. While we continued to process compliance cases at HQ and in the regional and field offices, the lack of a quorum of Board members meant that we were unable to release decisions in enforcement cases at HQ from early January to the end of September 2017. Thus, we could not rate the target for this objective.

Strategic Objective 1C: Conduct objective, timely studies of the Federal merit systems and Federal human capital management issues. Interim results indicate this objective was **Partially Met**. MSPB published three *Issues of Merit* newsletter editions on topics such as misconduct and penalties, making a difference at work, stewardship and the MSPs, effective hiring, engagement, emotional exhaustion, sexual harassment trends, and Federal human resource (HR) offices. We published two "Noteworthy" articles, one on addressing misconduct in the Federal civil service and another on managing the workforce under the merit system principles (MSPs). MSPB published one study report, which was a compilation of articles on

conducting adverse actions. Two other study reports are awaiting review and approval but cannot proceed because we do not have a quorum of Board members. Therefore, the performance goal on publication of study reports could not be rated. We continued to process 2016 MPS data and began work to ensure we have a secure location to electronically process workforce data.

Strategic Objective 1D: Review and act upon the rules, regulations, and significant actions of the Office of Personnel Management (OPM), as appropriate. Interim results indicate that this objective was **Partially Met**. MSPB published the Annual Report for FY 2016, which contained the review of OPM's 2016 significant actions and updates of selected significant actions from prior reports. However, due to the lack of quorum, MSPB could not release decisions involving requests for regulation review from early January to the end of September 2017. Thus, we could not rate the performance goal involving review of OPM regulations.

Strategic Objective 2A: Inform, promote, and /or encourage actions by policy-makers, as appropriate, that strengthen Federal merit systems laws and regulations. Interim results indicate that this objective was **Exceeded**. MSPB cases, studies, reports, newsletter articles, and other products were cited hundreds of times in 150 different print and electronic sources, 11 percent more unique sources than the previous year. Sources included trade publications on Federal management and legal issues, wire services, major city daily newspapers, Congressional sources, and a variety of websites and blogs. In accord with the Senate Report published in 2016, the National Defense Authorization Act for FY 2017 (signed in December 2016) used an MSPB report on Veterans' hiring to reinstate the 180-day waiting period for departing military personnel before they can be hired into Federal civilian positions. Several MSPB merit system study reports, including the compilation of articles about processing adverse action, were cited by the President of the Senior Executive Association in testimony during a hearing entitled, "Empowering Managers: Ideas for a More Effective Federal Workforce" conducted on February 9, 2017 by the Senate Subcommittee on Regulatory Affairs and Federal Management. An MSPB study on due process was also cited by the President of the Federal Management Association (FMA) during the same Senate Subcommittee hearing. Several MSPB merit system study reports were also cited in the Appendix to OMB memorandum M-17-22 entitled, "Comprehensive Plan for Reforming the Federal Government and Reducing the Federal Civilian Workforce." Although the study report on adverse actions did not have policy recommendations, we posted several documents for policy-makers including management perspectives on addressing misconduct in the Federal civil service, an annotated flow-chart on the Federal process for adverse actions, and managing Federal employees under the MSPs.

Strategic Objective 2B: Support and improve the practice of merit, adherence to MSPs, and prevention of Prohibited Personnel Practices (PPPs) in the workplace through successful outreach. Interim results indicate this objective was **Exceeded**. The number of MSPB outreach events was approximately 20 percent higher than the previous year. Outreach event topics included MSPB adjudication processes and legal precedent, Federal employment law, merit systems studies research, and general merit systems issues. Audiences varied from Federal labor law attorneys, human resource professionals, researchers, the Federal Bar Association, Executive branch departments and agencies, and Federally Employed Women (FEW), among others. MSPB also presented at the Federal Dispute Resolution conference and the OPM research summit. Finally, MSPB's Director of the Office of Policy and Evaluation participated in a series of meetings between OMB and Federal agencies to clarify OMB expectations for agency responses to OMB memo M-17-22.

Strategic Objective 2C: Advance the understanding of the concepts of merit, MSPs, and PPPs through the use of educational standards, materials, and guidance established by MSPB. Interim results indicate this objective was **Exceeded.** The number of visits to pages on the MSPB website increased from FY 2016 by 48 percent. Over five new or updated educational and informational materials or documents were made available on the website. These documents included the designation of the new Vice Chairman and FAQs on the impact of the lack of quorum on Board operations and appeals, an interactive report on adverse actions, two external reviews of the agency's IT infrastructure, a diagram illustrating current avenues of review or appeal for an adverse action, and data from the 2016 MPS. We also reorganized our FOIA web page that included additional FOIA guidance and created a new page dedicated to the Privacy Act.

Management Objective M1: Lead and manage employees to ensure an engaged workforce with competencies to perform the mission. Interim results indicate this objective was **Met**. The 2017 Federal Employee Viewpoint Survey (FEVS) results for employee perceptions of competencies, diversity, and engagement, and the 2017 Internal Survey (IS) results for inclusion, were within plus or minus 5 percent from last year.

Management Objective M2: Manage budget and financial resources and improve efficiency to ensure current and future resources. Interim results indicate this objective was **Met**. Monthly results averaged over the year indicated that 3.4 percent of funded positions were left vacant, which was considerably lower than the target of 8% or lower. The performance work statement (PWS) for developing requirements for our new core adjudication business applications was approved by the Acting CIO and submitted to the MSPB contracting officer. The PWS for moving our data center to the cloud is pending approval by the Acting CIO. MSPB initiated weekly calls or meetings with staff from OMB's Office of the Federal Chief Information Officer regarding our IT modernization efforts. We released e-Appeal version 9.7 and a new version of Quick Case, modified the Media Application and Media Server, completed a DMS upload application for litigation cases, and essentially completed an e-Case File application to automate compilation of electronic cases files sent to the Courts, Department of Justice, or other agencies. We distributed new laptops to all employees at HQ and in the regional and field offices. We also began work on obtaining a cloud-based secured location for analyzing Enterprise Human Resources Integration (EHRI) data.

Management Objective M3: Manage information technology and information services programs to support our mission. Interim results indicate that this objective was **Met**. Results from the MSPB IS indicated a 14 percent increase in the average positive responses on employee ratings of the availability and reliability of the IT infrastructure. The IS ratings for employee satisfaction with IT support increased 5 percent, which was within the targeted range. Within this goal area, the percent positive responses to the question about effective communication about IT systems and services increased by 30 percent from 2016. We continued to use cSupport help-desk ticket system emphasizing that tickets not be closed unless the customer agrees, and have begun planning for the implementation of iSupport, the successor ticket system. We also began planning for an automated survey of e-Appeal users.

Management Objective M4: Ensure individual and workplace safety and security. Interim results for this measure indicate this objective was **Met.** The average of the percent positive responses from the questions on workforce and workplace safety and security was within the targeted range.

Management Assurances

Federal Managers' Financial Integrity Act (FMFIA) of 1982

In accordance with the FMFIA, MSPB has established an internal management control system to ensure that: (1) obligations and costs comply with applicable law; (2) assets are safeguarded against waste, loss, unauthorized use, or misappropriation; (3) revenues and expenditures are properly recorded and accounted for; and (4) expenditures are being made in accordance with the agency's mission and they are achieving their intended results.

Federal Financial Management Improvement Act (FFMIA) of 1996

The purpose of the FFMIA is to advance Federal financial management by ensuring that Federal financial management systems provide accurate, reliable, and timely financial management information to the government's managers. The intent and the requirements of this Act go well beyond the directives of the CFO Act and the Government Management Reform Act of 1994 (GMRA) to publish audited financial reports.

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 assets is maintained.

The evaluation of management controls extends to every MSPB responsibility and activity 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.

Improper Payments Act

Improved financial performance through the reduction of improper payments continues to be a key financial management focus of the Federal government. At MSPB, developing strategies and the means to reduce improper payments is a matter of good stewardship. Accurate payments lower program costs.

OMB originally provided Section 57 of Circular A-11 as guidance for Federal agencies to identify and reduce improper payments for selected programs. The Improper Payments Information Act of 2002 (IPIA) broadened the original erroneous payment reporting requirements to programs and activities beyond those originally listed in Circular A-11. In August 2006, OMB issued Circular A-123, Appendix C - Requirements for Effective Measurement and Remediation of Improper Payments.

The IPIA defines improper payments as those payments made to the wrong recipient, in the wrong amount, or used in an improper manner by the recipient. The IPIA requires a Federal agency to identify its programs that are of high risk for improper payments. It also requires the agency to implement a corrective action plan that includes improper payment reduction and recovery targets and to report annually on the extent of its improper payments for high-risk programs and the actions taken to increase the accuracy of payments.

To coordinate and facilitate MSPB's efforts under the IPIA, the CFO works with Office Directors to develop a coordinated strategy to perform annual reviews for all programs and activities susceptible to improper payments. This cooperative effort includes developing actions to reduce improper payments, identifying and conducting ongoing monitoring techniques, and establishing appropriate corrective action initiatives. MSPB has determined that there is no significant risk of improper payments based on the review of its programs in FY 2017.

Other Information

Summary of Financial Statement Audit and Management Assurances

Presented below is a summary of financial statement audit and management assurances for FY 2017. Table 1 relates to the Agency's FY 2017 financial statement audit, which resulted in an unmodified opinion with no material weakness. Table 2 presents the number of material weaknesses reported by the Agency under Section 2 of the FMFIA—either with regard to internal controls over operations or financial reporting, and Section 4, which relates to internal controls over financial management systems; as well as the Agency's compliance with the FFMIA.

Table 1. Summary of Financial Statement Audit

• Audit Opinion	• Unmodified				
• Restatement	• No				
Material Weakness	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Total Material Weaknesses	0	0	0	0	0

Table 2. Summary of Management Assurances

Effectiveness of Internal Control over Financial Reporting (FMFIA § 2)						
Statement of Assurance:	Unmodified					
Material Weakness	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Material Weaknesses	0	0	0	0	0	0
Effectiveness of Internal Control over Operations (FMFIA § 2)						
Statement of Assurance:	Unmodified					
Material Weakness	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Material Weaknesses	0	0	0	0	0	0
Compliance with Federal Financial Management System Requirements (FMFIA § 4)						
Statement of Assurance:	Systems conform with financial management system requirements					
Material Weakness	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Material Weaknesses	0	0	0	0	0	0

Compliance with Section 803(a) of the Federal Financial Management Improvement Act (FFMIA)		
	Agency	Auditor
1. System Requirements	No lack of compliance noted	No lack of compliance noted
2. Accounting Standards	No lack of compliance noted	No lack of compliance noted
3. USSGL at Transaction Level	No lack of compliance noted	No lack of compliance noted

CIVIL MONETARY PENALTIES' ADJUSTMENTS FOR INFLATION

The Federal Civil Penalties Inflation Adjustment Act of 1990, as amended by the Debt Collection Improvement Act of 1996, required agencies to adjust their civil monetary penalties (CMP) for inflation at least every four years to maintain their deterrent effect. A CMP is defined as "any penalty, fine, or other sanction" that:: (1) "is for a specific amount" or "has a maximum amount" under Federal law; and (2) that a Federal agency assesses or enforces "pursuant to an administrative proceeding or a civil action in the Federal courts." MSPB had no CMP in accordance with the Federal Civil Penalties Inflation Adjustment Act of 1990.

On November 2, 2015, the Federal Civil Penalties Inflation Adjustment Act Improvements Act of 2015 further amended the Federal Civil Penalties Inflation Adjustment Act of 1990 to improve the effectiveness of CMPs and to maintain their deterrent effect. This amendment required agencies to adjust the CMP levels in effect as of November 2, 2015, with initial catch-up adjustments for inflation through an interim final rulemaking published by July 1, 2016, and to take effect no later than August 1, 2016. The maximum amount for an initial catch-up adjustment for inflation could not exceed 150 percent of the amount of that CMP on the date of enactment of the Federal Civil Penalties Inflation Adjustment Act Improvements Act of 2015 (November 2, 2015).

The 2015 Amendments also provide for agencies to adjust for inflation to their CPM amounts by January 15, 2017, and not later than January 15 of each year thereafter. Accordingly, MSPB had adjusted for inflation to CMP. MSPB published its latest adjustments for inflation to CMPs (82 FR 25715, Civil Monetary Penalty Adjustments for Inflation) in the Federal Register on June 5, 2017, pages 25715-25716), and which is also available at the agency's website at www.mspb.gov.

The following table provides detailed information on each of the Agency's CMPs as of June 5, 2017.

Statutory Authority	Penalty (Name or Description)	Year Enacted	Latest Year Adjustment (via Statute or Regulation)	Current Penalty Level	Location for Penalty Update Details
5 U.S.C § 1215(a)(3), Civil Service Reform Act of 1978 (CSRA)	Disciplinary Action	1989	2017	$1,045	Federal Register 82 (5) June 2017): 25715-25716 www.mspb.gov
5 U.S.C § 7326, Hatch Act Modernization Act of 2012	Penalties	2012	2017	$1,045	Federal Register 82 (5) June 2017): 25715-25716 www.mspb.gov

Financial Section

Message from the Chief Financial Officer

On behalf of the MSPB, it is my privilege to present our FY 2017 Agency Financial Report (AFR). I thank the agency's leadership and staff for their commitment to another successful fiscal year, and I hope that you find the AFR a useful summary of the agency's financial picture, operating performance, and stewardship. The report provides financial and high-level performance information to enable the agency's stakeholders to understand and evaluate the agency's achievements relative to its mission and resources. The agency is committed to operational excellence, with a focus on providing outstanding service to our customers.

For FY 2017, the agency achieved an unmodified audit opinion of our consolidated financial statements for the eleventh consecutive year, the result of our dedicated financial professionals, their application of effective controls, and a continuous improvement approach to promoting responsible financial stewardship across all of the agency's mission offices.

In addition to giving an unmodified opinion of our FY 2017 financial statements, our auditors reported that we have no material controls weaknesses, nor material instances of noncompliance with laws and regulations. As such, I can provide reasonable assurance that the financial data included in this AFR are complete and reliable in accordance with Federal requirements.

MSPB has partnered with the Department of the Treasury, BFS in Parkersburg, West Virginia, since 1992. BFS, designated by the OMB as a Center of Excellence, is responsible for handling our administrative payments and preparing our financial statements. Through its franchise operation, BFS 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.

We take our financial accountability seriously and are committed to strengthening our financial performance. While we are proud of our accomplishment of receiving unmodified opinions for the past 11 years, we are committed to continue our work on improving our financial management performance during the coming years while efficiently accomplishing the mission of MSPB – to protect the Federal merit systems and the rights of individuals within those systems.

Respectfully

Kevin J. Nash
Chief Financial Officer
November 15, 2017

Notes on the Financial Statements

Improving financial management continues to be a high priority of MSPB. It is an essential element in demonstrating accountability and enhancing services provided to the public. Financial improvements initiated by MSPB have been driven by recent legislation and external initiatives, as well as by a strict organizational belief that adherence to sound financial policies and procedures will directly enhance the efficiency and effectiveness of the agency. This is of particular importance in an era of financial uncertainty and tightening budgets. Pivotal to driving better performance results through enhanced financial management practices has been MSPB's ongoing efforts to provide day-to-day decision-makers with reliable budgetary and cost information.

Limitations of the Principal Financial Statements

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

The principal financial statements summarize MSPB's financial position, net cost of operations, and changes in net position, provide information on budgetary resources and financing, and present the sources and disposition of custodial revenues for FY 2016 and FY 2017.

The Balance Sheet summarizes the assets, liabilities, and net position by category as of the reporting date. Intragovernmental assets and liabilities resulting from transactions between federal agencies are presented separately from assets and liabilities from transactions with the public.

The Statement of Net Cost shows, by programs, the net cost of operations for the reporting period. Net cost of operations consists of full program costs incurred by the agency less exchange revenues earned by those programs.

The Statement of Changes in Net Position presents the agency's beginning and ending net position by two components—Cumulative Results of Operations and Unexpended Appropriations. It summarizes the change in net position by major transaction category. The ending balances of both components of the net position are also reported on the Consolidated Balance Sheet.

The Statement of Budgetary Resources presents the budgetary resources available to the agency, the status of these resources, and the outlays of budgetary resources.

The Notes to the Financial Statements provides information to explain the basis of the accounting and presentation used to prepare the statements and to explain specific items in the statements. They also provide information to support how particular accounts have been valued and computed.

MERIT SYSTEMS PROTECTION BOARD

INDEPENDENT AUDITOR'S REPORT
AND
FINANCIAL STATEMENTS

FOR THE YEARS ENDED
SEPTEMBER 30, 2017 AND 2016

Prepared By
Brown & Company CPAs and Management Consultants, PLLC
November 10, 2017

BROWN & COMPANY CPAs, PLLC

MERIT SYSTEMS PROTECTION BOARD

INDEPENDENT AUDITOR'S REPORT
AND
FINANCIAL STATEMENTS
FOR THE YEARS ENDED
SEPTEMBER 30, 2017 AND 2016

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS 1

BALANCE SHEET 5

STATEMENT OF NET COST 6

STATEMENT OF CHANGES IN NET POSITION 7

STATEMENT OF BUDGETARY RESOURCES 8

NOTES TO THE FINANCIAL STATEMENTS 9

BROWN & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS AND MANAGEMENT CONSULTANTS, PLLC

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying balance sheets of the U.S. Merit Systems Protection Board (MSPB) as of September 30, 2017 and 2016, and the related statements of net cost, changes in net position, and budgetary resources, for the years then ended (collectively referred to as the financial statements), and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted government auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Office of Management and Budget (OMB) Bulletin No. 17-03, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 17-03 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit includes test of compliance with provisions of applicable laws, regulations, contracts, and grant agreements that have a direct effect on the determination of material amounts and disclosure in the financial statements. The purpose was not to provide an opinion on compliance with provisions of applicable laws, regulations, contracts and grant agreements and, therefore, we do not express such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

1101 MERCANTILE LANE, SUITE 122 • LARGO, MD 20774
PHONE: (240) 770-4900 • FAX: (301) 773-2090 • mail@brownco-cpas.com • www.brownco-cpas.com

Opinion on the Financial Statements

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, 2017 and 2016, and its net costs, changes in net position, and budgetary resources for the years then ended, in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the information in the *Management's Discussion and Analysis* (MD&A), also regarded as *Required Supplementary Information* (RSI) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Federal Accounting Standards Advisory Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted government auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. *The Message from the Vice Chairman, Message From the CFO* and the Other Information sections are presented for purposes of additional analysis and are not required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the MSPB's internal control over financial reporting (internal control) to design audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of providing an opinion on internal control. Accordingly, we do not express such an opinion.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. During the audit of the financial statements no deficiencies in internal control were identified that were considered to be a material weakness. However, material weaknesses may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the MSPB's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations and contracts applicable to the MSPB. The objective was not to provide an opinion on compliance with those provisions of laws, regulations, contracts and grant agreements, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters required to be reported under *Government Auditing Standards* or OMB Bulletin No. 17-03.

Management's Responsibility for Internal Control and Compliance

MSPB's management is responsible for (1) evaluating effectiveness of internal control over financial reporting based on criteria established under the Federal Managers' Financial Integrity Act (FMFIA), (2) providing a statement of assurance on the overall effectiveness of internal control over financial reporting, and (3) ensuring compliance with other applicable laws and regulations.

Auditor's Responsibilities

We are responsible for (1) obtaining a sufficient understanding of internal control over financial reporting to plan the audit, (2) testing compliance with certain provisions of laws and regulations that have a direct and material effect on the financial statements and applicable laws for which OMB Bulletin No. 17-03 requires testing, and (3) applying certain limited procedures with respect to the MD&A and other RSI.

We did not evaluate all internal controls relevant to operating objectives as broadly established by the FMFIA, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to testing internal control over financial reporting. Because of inherent limitations in internal control, misstatements due to error or fraud, losses, or noncompliance may nevertheless occur and not be detected. We also caution that projecting our audit results to future periods is subject to risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate. In addition, we caution that our internal control testing may not be sufficient for other purposes.

We did not test compliance with all laws and regulations applicable to the MSPB. We limited our tests of compliance to certain provisions of laws and regulations that have a direct and material effect on the financial statements and those required by OMB Bulletin No. 17-03 that we deemed applicable to the MSPB's financial statements for the fiscal year ended September 30, 2017. We caution that noncompliance with laws and regulations may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

Purpose of the Report on Internal Control over Financial Reporting and the Report on Compliance and Other Matters

The purpose of the Report on Internal Control over Financial Reporting and the Report on Compliance and Other Matters sections of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the MSPB's internal control or on compliance. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the MSPB's internal control and compliance. Accordingly, these reports are not suitable for any other purpose.

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

Brown & Company

Largo, Maryland
November 10, 2017

MERIT SYSTEMS PROTECTION BOARD
BALANCE SHEET
AS OF SEPTEMBER 30, 2017 AND 2016
(In Dollars)

		2017		2016
Assets:				
Intragovernmental				
Fund Balance With Treasury (Note 2)	$	13,272,030	$	13,045,930
Accounts Receivable (Note 3)		-		3,954
Other (Note 5)		25,682		15,192
Total Intragovernmental		13,297,712		13,065,076
Accounts Receivable, Net (Note 3)		1,513		476
Property, Equipment, and Software, Net (Note 4)		701,086		856,519
Total Assets	**$**	**14,000,311**	**$**	**13,922,071**
Liabilities:				
Intragovernmental				
Accounts Payable	$	909,749	$	436,890
Other (Note 8)		367,789		360,416
Total Intragovernmental		1,277,538		797,306
Accounts Payable		146,050		157,456
Federal Employee and Veterans' Benefits (Note 7)		493,723		467,129
Other (Note 8)		4,025,854		3,925,918
Total Liabilities (Note 6)	$	5,943,165	$	5,347,809
Net Position:				
Unexpended Appropriations - Other Funds	$	10,856,375	$	11,096,891
Cumulative Results of Operations - Other Funds		(2,799,229)		(2,522,629)
Total Net Position	$	8,057,146	$	8,574,262
Total Liabilities and Net Position	**$**	**14,000,311**	**$**	**13,922,071**

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

MERIT SYSTEMS PROTECTION BOARD
STATEMENT OF NET COST
FOR THE YEARS ENDING SEPTEMBER 30, 2017 AND 2016
(In Dollars)

		2017		2016
Program Costs: (Note 10)				
Adjudication				
Gross Costs	$	41,654,789	$	39,890,356
Less: Earned Revenue		2,348		-
Net Program Costs	$	41,657,137	$	39,890,356
Management Support				
Gross Costs	$	5,266,888	$	4,911,044
Net Program Costs	$	5,266,888	$	4,911,044
Merit Systems Studies				
Gross Costs	$	2,267,534	$	2,549,465
Net Program Costs	$	2,267,534	$	2,549,465
Net Cost of Operations	$	49,191,559	$	47,350,865

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

MERIT SYSTEMS PROTECTION BOARD
STATEMENT OF CHANGES IN NET POSITION
FOR THE YEARS ENDING SEPTEMBER 30, 2017 AND 2016
(In Dollars)

	2017	2016
Cumulative Results of Operations:		
Beginning Balances	$ (2,522,629)	$ (2,310,329)
Budgetary Financing Sources:		
Appropriations Used	44,865,824	42,776,282
Transfers In/Out Without Reimbursement	2,345,000	2,345,000
Other Financing Sources (Non-Exchange):		
Imputed Financing Sources (Note 12)	1,704,135	2,017,283
Total Financing Sources	48,914,959	47,138,565
Net Cost of Operations	(49,191,559)	(47,350,865)
Net Change	(276,600)	(212,300)
Cumulative Results of Operations	$ (2,799,229)	$ (2,522,629)
Unexpended Appropriations:		
Beginning Balances	$ 11,096,891	$ 10,573,440
Budgetary Financing Sources:		
Appropriations Received	44,786,000	44,490,000
Other Adjustments	(160,692)	(1,190,267)
Appropriations Used	(44,865,824)	(42,776,282)
Total Budgetary Financing Sources	(240,516)	523,451
Total Unexpended Appropriations	$ 10,856,375	$ 11,096,891
Net Position	$ 8,057,146	$ 8,574,262

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

MERIT SYSTEMS PROTECTION BOARD
STATEMENT OF BUDGETARY RESOURCES
FOR THE YEARS ENDING SEPTEMBER 30, 2017 AND 2016
(In Dollars)

	2017	2016
Budgetary Resources:		
Unobligated Balance Brought Forward, October 1	$ 7,862,483	$ 6,812,010
Recoveries of Prior Year Unpaid Obligations	103,725	821,810
Other changes in unobligated balance	(151,098)	(1,184,432)
Unobligated balance from prior year budget authority, net	7,815,110	6,449,388
Appropriations	44,786,000	44,490,000
Spending authority from offsetting collections	2,342,652	2,345,000
Total Budgetary Resources	**$ 54,943,762**	**$ 53,284,388**
Status of Budgetary Resources:		
New obligations and upward adjustments (total) (Note 13)	$ 47,452,239	$ 45,421,905
Unobligated balance, end of year:		
Apportioned, unexpired account (Note 2)	6,280,778	6,838,858
Expired unobligated balance, end of year (Note 2)	1,210,745	1,023,625
Unobligated balance, end of year (total)	7,491,523	7,862,483
Total Budgetary Resources	**$ 54,943,762**	**$ 53,284,388**
Change in Obligated Balance		
Unpaid Obligations:		
Unpaid Obligations, Brought Forward, October 1	$ 5,187,401	$ 5,371,612
New obligations and upward adjustments (Note 13)	47,452,239	45,421,905
Outlays (gross)	(46,755,408)	(44,784,306)
Recoveries of Prior Year Unpaid Obligations	(103,725)	(821,810)
Unpaid Obligations, End of Year (Gross)	5,780,507	5,187,401
Uncollected payments:		
Uncollected Customer Payments, Federal Sources, Brought Forward, October 1	(3,954)	(3,954)
Change in Uncollected Payments, Federal Sources	3,954	-
Uncollected Customer Payments, Federal Sources, End of Year	-	(3,954)
Memorandum entries:		
Obligated Balance, Start of Year	**$ 5,187,401**	**$ 5,367,658**
Obligated Balance, End of Year (Note 2)	**$ 5,780,507**	**$ 5,183,447**
Budget Authority and Outlays, Net:		
Budget authority, gross	$ 47,128,652	$ 46,835,000
Actual offsetting collections	(2,356,198)	(2,350,835)
Change in Uncollected Payments, Federal Sources	3,954	-
Recoveries of prior year paid obligations	9,592	5,835
Budget Authority, net, (total)	**$ 44,786,000**	**$ 44,490,000**
Outlays, gross	$ 46,755,408	$ 44,784,306
Actual offsetting collections	(2,356,198)	(2,350,835)
Agency outlays, net	$ 44,399,210	$ 42,433,471

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

MERIT SYSTEMS PROTECTION BOARD
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The U.S. Merit Systems Protection Board (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. The MSPB reporting entity is comprised of General Funds and General Miscellaneous Receipts.

General Funds are accounts used to record financial transactions arising under congressional appropriations or other authorizations to spend general revenues. The MSPB manages Operations and Facilities, Engineering and Development General Fund accounts.

General Fund Miscellaneous Receipts are accounts established for receipts of non-recurring activity, such as fines, penalties, fees, and other miscellaneous receipts for services and benefits.

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

B. Basis of Presentation

The financial statements have been prepared to report the financial position and results of operations of the MSPB. The Balance Sheet presents the financial position of the agency. The Statement of Net Cost presents the agency's operating results; the Statement of Changes in Net Position displays the changes in the agency's equity accounts. The Statement of Budgetary Resources presents the sources, status, and uses of the agency's resources and follows the rules for the Budget of the United States Government.

The statements are a requirement of the Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994. They have been prepared from, and are fully supported by, the books and records of the MSPB in accordance with the hierarchy of accounting principles generally accepted in the United States of America, standards issued by the Federal Accounting Standards Advisory Board (FASAB), Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements,* as amended, and the MSPB's 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 the MSPB's use of budgetary resources. The financial statements and associated notes are presented on a comparative basis. Unless specified otherwise, all amounts are presented in dollars.

C. 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.

D. Fund Balance with Treasury

Fund Balance with Treasury is the aggregate amount of the MSPB's funds with Treasury in expenditure, receipt, and revolving fund accounts. Appropriated funds recorded in expenditure accounts are available to pay current liabilities and finance authorized purchases.

The MSPB does not maintain bank accounts of its own, has no disbursing authority, and does not maintain cash held outside of Treasury. Treasury disburses funds for the agency on demand.

E. Accounts Receivable

Accounts receivable consists of amounts owed to the MSPB by other Federal agencies and the general 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, 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.

F. Property, Equipment, and Software

Property, equipment, and software represent furniture, fixtures, equipment, and information technology hardware and software which are recorded at original acquisition cost and are depreciated or amortized using the straight-line method over their estimated useful lives. Major alterations and renovations are capitalized, while maintenance and repair costs are expensed as incurred. MSPB's capitalization threshold is $50,000 for individual purchases and $500,000 for bulk purchases. Property, equipment, and software acquisitions that do not meet the capitalization criteria are expensed upon receipt. Applicable standard governmental guidelines regulate the disposal and convertibility of agency property, equipment, and software. The useful life classifications for capitalized assets are as follows:

Description	Useful Life (years)
Leasehold Improvements	10
Office Equipment	10
Software	5

G. 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.

H. Liabilities

Liabilities represent the amount of funds likely to be paid by the MSPB as a result of transactions or events that have already occurred.

The MSPB reports its liabilities under two categories, Intragovernmental and With the Public. Intragovernmental liabilities represent funds owed to another government agency. Liabilities with the Public represent funds owed to any entity or person that is not a federal agency, including private sector firms and federal employees. Each of these categories may include liabilities that are covered by budgetary resources and liabilities not covered by budgetary resources.

Liabilities covered by budgetary resources are liabilities funded by a current appropriation or other funding source. These consist of accounts payable and accrued payroll and benefits. Accounts payable represent amounts owed to another entity for goods ordered and received and for services rendered except for employees. Accrued payroll and benefits represent payroll costs earned by employees during the fiscal year which are not paid until the next fiscal year.

Liabilities not covered by budgetary resources are liabilities that are not funded by any current appropriation or other funding source. These liabilities consist of accrued annual leave, actuarial FECA, and the amounts due to Treasury for collection and accounts receivable of civil penalties and FOIA request fees. 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.

I. 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 (OPM) upon the retirement of that individual. Credit is given for sick leave balances in the computation of annuities upon the retirement of Federal Employees Retirement System (FERS)-covered employees effective at 100%.

J. Accrued and Actuarial Workers' Compensation

The Federal Employees' Compensation Act (FECA) administered by the U.S. Department of Labor (DOL) addresses all claims brought by the MSPB employees for on-the-job injuries. The DOL bills each agency annually as its claims are paid, but payment of these bills is deferred for two years to allow for funding through the budget process. Similarly, employees that the MSPB terminates without cause may receive unemployment compensation benefits under the unemployment insurance program also administered by the DOL, which bills each agency quarterly for paid claims. 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.

K. Retirement Plans

The MSPB employees participate in either the CSRS or the FERS. The employees who participate in CSRS are beneficiaries of MSPB matching contribution, equal to seven percent of pay, distributed to their annuity account in the Civil Service Retirement and Disability Fund.

Prior to December 31, 1983, all employees were covered under the CSRS program. From January 1, 1984 through December 31, 1986, employees had the option of remaining under CSRS or joining FERS and Social Security. Employees hired as of January 1, 1987 are automatically covered by the FERS program. Both CSRS and FERS employees may participate in the federal Thrift Savings Plan (TSP). FERS employees receive an automatic agency contribution equal to one percent of pay and MSPB 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.

The 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 communicate these factors to the MSPB for current period expense reporting. OPM also provides information regarding the full cost of health and life insurance benefits. The MSPB

recognized the offsetting revenue as imputed financing sources to the extent these expenses will be paid by OPM.

The 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, as the administrator.

L. Other Post-Employment Benefits

The MSPB employees eligible to participate in the Federal Employees' Health Benefits Plan (FEHBP) and the Federal Employees' Group Life Insurance Program (FEGLIP) may continue to participate in these programs after their retirement. The OPM has provided the MSPB with certain cost factors that estimate the true cost of providing the post-retirement benefit to current employees. The MSPB recognizes a current cost for these and Other Retirement Benefits (ORB) at the time the employee's services are rendered. The ORB expense is financed by OPM, and offset by the MSPB through the recognition of an imputed financing source.

M. Use of Estimates

The preparation of the accompanying financial statements in accordance with generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses. Actual results could differ from those estimates.

N. 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. The MSPB recognized imputed costs and financing sources in fiscal years 2017 and 2016 to the extent directed by accounting standards.

O. Reclassification

Certain fiscal year 2016 balances have been reclassified, retitled, or combined with other financial statement line items for consistency with the current year presentation.

NOTE 2. FUND BALANCE WITH TREASURY

Fund balance with Treasury account balances as of September 30, 2017 and 2016, were as follows:

	2017	2016
Fund Balances:		
Appropriated Funds	$ 13,272,030	$ 13,045,930
Total	$ 13,272,030	$ 13,045,930
Status of Fund Balance with Treasury:		
Unobligated Balance		
Available	$ 6,280,778	$ 6,838,858
Unavailable	1,210,745	1,023,625
Obligated Balance Not Yet Disbursed	5,780,507	5,183,447
Total	$ 13,272,030	$ 13,045,930

No discrepancies exist between the Fund Balance reflected on the Balance Sheet and the balances in the Treasury accounts.

The available unobligated fund balances represent the current-period amount available for obligation or commitment. At the start of the next fiscal year, this amount will become part of the unavailable balance as described in the following paragraph.

The unavailable 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.

The obligated balance not yet disbursed includes accounts payable, accrued expenses, and undelivered orders that have reduced unexpended appropriations but have not yet decreased the fund balance on hand (see also Note 14).

NOTE 3. ACCOUNTS RECEIVABLE

Accounts receivable balances as of September 30, 2017 and 2016, were as follows:

	2017	2016
Intragovernmental		
Accounts Receivable	$ -	$ 3,954
Total Intragovernmental Accounts Receivable	$ -	$ 3,954
With the Public		
Accounts Receivable	$ 1,513	$ 476
Total Public Accounts Receivable	$ 1,513	$ 476
Total Accounts Receivable	$ 1,513	$ 4,430

The accounts receivable is primarily made up of Federal and Non-Federal travel reimbursements and employee receivables.

Historical experience has indicated that the majority of the receivables are collectible. There are no material uncollectible accounts as of September 30, 2017 and 2016.

NOTE 4. PROPERTY, EQUIPMENT, AND SOFTWARE

Schedule of Property, Equipment, and Software as of September 30, 2017

Major Class	Acquisition Cost	Accumulated Amortization/ Depreciation	Net Book Value
Leasehold Improvements	$ 1,963,761	$ 1,885,876	$ 77,885
Furniture & Equipment	960,763	337,562	623,201
Software	9,415,576	9,415,576	-
Total	$ 12,340,100	$ 11,639,014	$ 701,086

Schedule of Property, Equipment, and Software as of September 30, 2016

Major Class	Acquisition Cost	Accumulated Amortization/ Depreciation	Net Book Value
Leasehold Improvements	$ 1,963,761	$ 1,819,142	$ 144,619
Furniture & Equipment	960,763	248,863	711,900
Software	9,415,576	9,415,576	-
Total	$ 12,340,100	$ 11,483,581	$ 856,519

NOTE 5. OTHER ASSETS

Other assets account balances as of September 30, 2017 and 2016, were as follows:

	2017	2016
Intragovernmental		
Advances and Prepayments	$ 25,682	$ 15,192
Total Intragovernmental OtherAssets	$ 25,682	$ 15,192

Advance Balance consists entirely of an advance printing account with the US Government Printing Office.

NOTE 6. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

The liabilities for the MSPB as of September 30, 2017 and 2016, include liabilities not covered by budgetary resources. 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.

	2017	2016
Intragovernmental – FECA	$ 91,574	$ 91,311
Unfunded Leave	2,916,531	2,821,184
Actuarial FECA	493,723	467,129
Total Liabilities Not Covered by Budgetary Resources	$ 3,501,828	$ 3,379,624
Total Liabilities Covered by Budgetary Resources	2,441,337	1,968,185
Total Liabilities	$ 5,943,165	$ 5,347,809

FECA and the Unemployment Insurance liabilities represent the unfunded liability for actual workers compensation claims and unemployment benefits paid on MSPB's behalf and payable to the DOL. The MSPB also records an actuarial liability for future workers compensation claims based on the liability to benefits paid (LBP) ratio provided by DOL and multiplied by the average of benefits paid over three years

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

NOTE 7. ACTUARIAL FECA LIABILITY

FECA provides income and medical cost protection to covered federal civilian employees harmed on the job or who have contracted an occupational disease, and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. Claims incurred for benefits under FECA for MSPB's employees are administered by the DOL and ultimately paid by the MSPB when funding becomes available.

The MSPB bases its estimate for FECA actuarial liability on the DOL's FECA model. The DOL method of determining the liability uses historical benefits payment patterns for a specific incurred period to predict the ultimate payments for the period. Based on the information provided by the DOL, MSPB's liability as of September 30, 2017 and 2016, was $493,723 and $467,129, respectively.

NOTE 8. OTHER LIABILITIES

Other liabilities account balances as of September 30, 2017 were as follows:

	Current	Non Current	Total
Intragovernmental			
FECA Liability	$ 11,201	$ 80,373	$ 91,574
Payroll Taxes Payable	276,215	-	276,215
Total Intragovernmental Other Liabilities	**$ 287,416**	**$ 80,373**	**$ 367,789**
With the Public			
Payroll Taxes Payable	$ 44,926	$ -	$ 44,926
Accrued Funded Payroll and Leave	1,061,455	-	1,061,455
Unfunded Leave	2,916,531	-	2,916,531
Other Liability	2,942	-	2,942
Total Public Other Liabilities	**$ 4,025,854**	**$ -**	**$ 4,025,854**

Other liabilities account balances as of September 30, 2016 were as follows:

	Current	Non Current	Total
Intragovernmental			
FECA Liability	$ 9,963	$ 81,348	$ 91,311
Payroll Taxes Payable	269,105	-	269,105
Total Intragovernmental Other Liabilities	**$ 279,068**	**$ 81,348**	**$ 360,416**
With the Public			
Payroll Taxes Payable	$ 40,878	$ -	$ 40,878
Accrued Funded Payroll and Leave	1,060,914	-	1,060,914
Unfunded Leave	2,821,184	-	2,821,184
Other Liability	2,942	-	2,942
Total Public Other Liabilities	**$ 3,925,918**	**$ -**	**$ 3,925,918**

NOTE 9. LEASES

Operating Leases

The MSPB occupies office space at various locations nationwide (Atlanta, Chicago, Dallas, Denver, New York, Philadelphia, San Francisco, and in Washington DC at two locations.) The lease agreement is with the General Service Administration (GSA) and is accounted for as an operating lease. This lease agreement covers all locations that the MSPB occupies. The lease term began on May 1, 2013 and expires on April 30, 2023. The total operating lease expense for fiscal years 2017 and 2016 were $3,595,097 and $3,571,688, respectively. Below is a schedule of future payments for the term of the lease.

The MSPB occupies a warehouse space at one location with a lease agreement accounted for as an operating lease. The (Washington, DC warehouse) lease began on October 1, 2014 and will expire on September 30, 2019. The agency currently pays annual rent of $37,956.

Fiscal Year	Office Space
2018	$ 2,741,572
2019	2,607,655
2020	490,514
2021	386,765
2022	394,500
Thereafter	17,637
Total Future Payments	**$ 6,638,643**

The operating lease amount does not include estimated payments for leases with annual renewal options.

NOTE 10. INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUE

Intragovernmental costs and revenue represent exchange transactions between the MSPB and other federal government entities, and are in contrast to those with non-federal entities (the public). Such costs and revenue are summarized as follows:

	2017	2016
Adjudication		
Intragovernmental Costs	$ 12,974,965	$ 12,894,404
Public Costs	28,679,824	26,995,952
Total Program Costs	41,654,789	39,890,356
Intragovernmental Earned Revenue	2,348	-
Net Program Costs	$ 41,657,137	$ 39,890,356
Management Support		
Intragovernmental Costs	$ 1,443,213	$ 1,411,873
Public Costs	3,823,675	3,499,171
Total Net Cost	$ 5,266,888	$ 4,911,044
Merit Systems Studies		
Intragovernmental Costs	$ 436,170	$ 430,691
Public Costs	1,831,364	2,118,774
Net Program Costs	$ 2,267,534	$ 2,549,465
Total Intragovernmental costs	$ 14,854,348	$ 14,736,968
Total Public costs	34,334,863	32,613,897
Total Costs	49,189,211	47,350,865
Total Intragovernmental Earned Revenue	2,348	-
Total Net Cost	$ 49,191,559	$ 47,350,865

NOTE 11. BUDGETARY RESOURCE COMPARISONS TO THE BUDGET OF THE UNITED STATES GOVERNMENT

The President's Budget that will include fiscal year 2017 actual budgetary execution information has not yet been published. The President's Budget is scheduled for publication in February 2018 and can be found at the OMB Web site: *http://www.whitehouse.gov/omb/.* The 2016 Budget of the United States Government, with the "Actual" column completed for 2016, has been reconciled to the Statement of Budgetary Resources and there were no material differences.

FY2016	Budgetary Resources	Obligations Incurred	Net Outlays
Statement of Budgetary Resources	$53,000,000	$45,000,000	$42,000,000
Spending Authority from Offsetting Collections	(2,000,000)	-	-
Unobligated Balance Not Available	(1,000,000)	-	-
Difference - Due to Rounding	1,000,000	-	1,000,000
Budget of the U.S. Government	**$51,000,000**	**$45,000,000**	**$43,000,000**

NOTE 12. IMPUTED FINANCING SOURCES

The 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 administrating agency, OPM. For years ended September 30, 2017 and 2016, imputed financing was $1,704,135 and $2,017,283 respectively.

NOTE 13. APPORTIONMENT CATEGORIES OF OBLIGATIONS INCURRED

Obligations incurred and reported in the Statement of Budgetary Resources in 2017 and 2016 consisted of the following:

	2017	2016
Direct Obligations, Category A	$ 45,107,239	$ 43,076,905
Reimbursable Obligations, Category A	2,345,000	2,345,000
Total Obligations Incurred	$ 47,452,239	$ 45,421,905

Category A apportionments distribute budgetary resources by fiscal quarters.

NOTE 14. UNDELIVERED ORDERS AT THE END OF THE PERIOD

For the years ended September 30, 2017 and 2016, budgetary resources obligated for undelivered orders amounted to $3,364,852 and $3,234,407, respectively.

NOTE 15. CUSTODIAL ACTIVITY

The MSPB's custodial collection primarily consists of late fees and penalties. While these collections are considered custodial, they are neither primary to the mission of MSPB nor material to the overall financial statements. The MSPB's total custodial collections are $248 and $0 for the years ended September 30, 2017, and 2016, respectively.

NOTE 16. RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

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

	2017	2016
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred	$ 47,452,239	$ 45,421,905
Spending Authority From Offsetting Collections and Recoveries	(2,455,969)	(3,172,645)
Net Obligations	44,996,270	42,249,260
Other Resources		
Imputed Financing From Costs Absorbed By Others	1,704,135	2,017,283
Net Other Resources Used to Finance Activities	1,704,135	2,017,283
Total Resources Used to Finance Activities	46,700,405	44,266,543
Resources Used to Finance Items Not Part of the Net Cost of Operations	2,214,555	2,765,759
Total Resources Used to Finance the Net Cost of Operations	48,914,960	47,032,302
Components of the Net Cost of Operations That Will Not Require or Generate Resources in the Current Period:	276,599	318,563
Net Cost of Operations	$ 49,191,559	$ 47,350,865