



U.S. Merit Systems Protection Board

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**Agency  
Financial  
Report  
FY 2012**

November 2012

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**United States**  
**Merit Systems Protection Board**



**AGENCY FINANCIAL REPORT**  
**For Fiscal Year 2012**

**NOVEMBER 2012**

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**U.S. Merit Systems Protection Board  
Fiscal Year 2012  
Agency Financial Report**



**Message from the Chairman**

It is my honor to submit the Fiscal Year 2012 Agency Financial Report for the U.S. Merit Systems Protection Board (MSPB). I am pleased to report that as of September 30, 2012, MSPB has received an unqualified opinion on its financial statements.

In accordance with our legal requirements and Office of Management and Budget (OMB) guidance, I have determined that the financial data included in this report are complete and reliable. There are no material inadequacies or non-conformances in either the completeness or reliability of the financial data. MSPB has existing systems to guarantee the completeness and reliability of the financial data used in this report and is using OMB guidance to review and continually improve these systems. 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 comply with the provisions of the Federal Managers' Financial Integrity Act.

Respectfully,

A handwritten signature in blue ink, which appears to read 'Susan Grundmann'. The signature is fluid and cursive, extending across the width of the page.

Susan Tsui Grundmann  
Chairman

November 15, 2012

## U.S. Merit Systems Protection Board FY 2012 Agency Financial Report

### 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 19<sup>th</sup> 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;<sup>1</sup> 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).<sup>2</sup>

### 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 decision, conducting objective, merit systems studies, and reviewing the rules, regulations and significant actions of the Office of Personnel Management 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 is organized into offices designed to conduct and support its statutory functions. The agency has three appointed Board members and is authorized 226 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 over-lapping, 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**.

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<sup>1</sup> Bogdanow, M., and Lanphear, T., History of the Merit Systems Protection Board, Journal of the Federal Circuit Historical Society, Volume 4, 2010.

<sup>2</sup> Title 5 U.S.C. § 2301 and Title 5 U.S.C. § 2302, respectively.

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 this office are currently performed by ALJs at the United States Coast Guard, the Federal Trade Commission, and the 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, 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 for payroll services, U.S. Department of the Treasury, Bureau of the Public Debt for accounting services, and U.S. Department of Agriculture, Animal and Plant Health Inspection Service 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 petition for review 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.

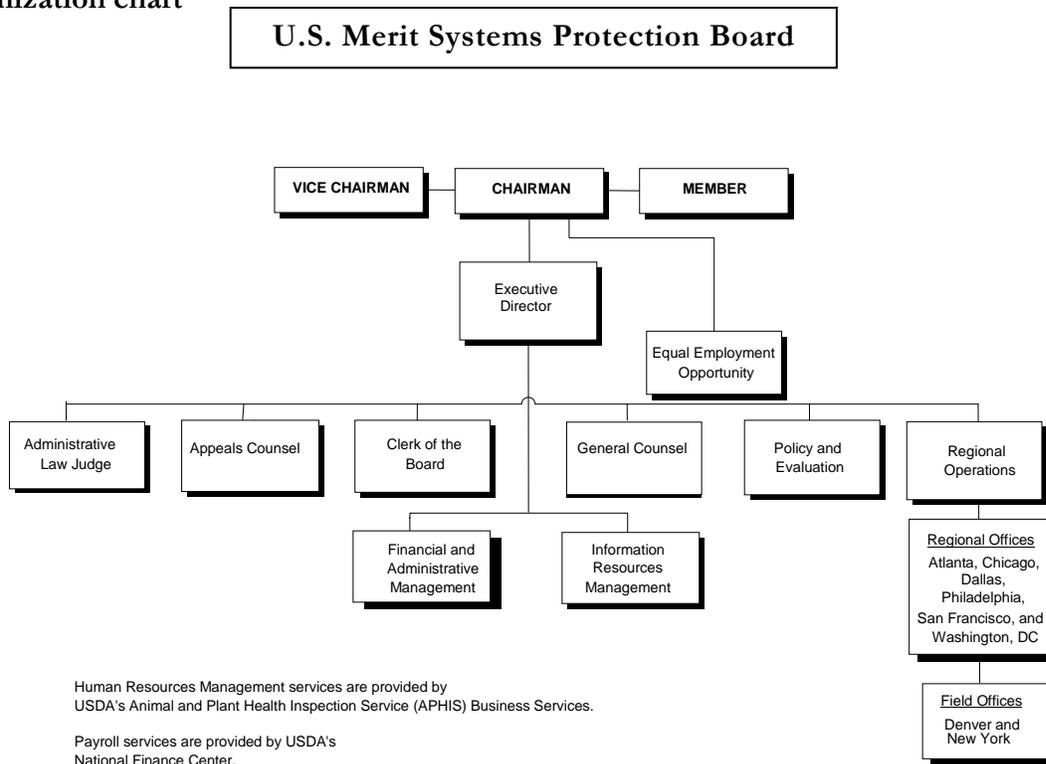
The **Office of Information Resources Management** develops, implements, and maintains MSPB's automated information systems to help the agency manage its caseload efficiently and carry out its administrative and research responsibilities.

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**



Human Resources Management services are provided by USDA's Animal and Plant Health Inspection Service (APHIS) Business Services.

Payroll services are provided by USDA's National Finance Center.

Accounting services are provided by the Department of the Treasury's Bureau of the Public Debt.

## Management Discussion and Analysis

MSPB has chosen to produce an Agency Financial Report (AFR) and an Annual Performance Report (APR). MSPB will submit its FY 2012 APR with its Congressional Budget Justification and post it on the MSPB web site at [www.mspb.gov](http://www.mspb.gov) at the time the President's 2014 budget is submitted to Congress in February 2013.

## External Trends Affecting MSPB's Mission and Performance

A number of significant external trends and issues are likely to affect MSPB's mission to protect the Federal merit systems through FY 2014 and FY 2015.

### External Trends

- Budget cuts, Reductions in Force (RIF), and workforce adjustments.
  - Increase in the number of appeals due to potential RIFs and actions taken in lieu of or in preparation for RIFs.
  - Need to conduct studies and make recommendations on how to ensure merit and avoid PPPs.
- Increases in the number of Federal employees retiring and need to ensure employees have the competencies to perform knowledge-based work.
  - Increase in appeals workload due to increased retirements (benefits claims and alleged forced retirement cases).
  - Need to study how changes in the workforce and type of work impact MSPs and PPPs.
  - Increased need to promote merit in the Federal workplace and educate Federal managers and employees about Federal merit systems, MSPs, and PPPs.
- Increases in the number of employees or applicants with Veterans' employment rights and potential changes in law and jurisdiction.
  - Large increases in adjudication workload and jurisdiction and increased case complexity.
  - Increased complexity in studying the merit systems and reviewing OPM's rules, regulations, and significant actions.
- Revisions to management and HR policies, authorities, and flexibilities, including changes to Federal retirement systems.
  - Increases in appeals workload and case complexity.
  - Increased complexity in studying merit and making recommendations to ensure workforce is managed under the MSPs and free from PPPs.
  - Increased complexity in studies to ensure that new and amended HR policies support adherence to MSPs and avoidance of PPPs.
  - Increased need to promote merit and educate Federal managers and employees about Federal merit systems, MSPs, and PPPs.

## Actions Required to Address External Trends

- Preserving the integrity and enhancing the capabilities of adjudication services.
  - Fund adjudication staffing levels to account for pending mass retirements.
  - Continuing focus on performance measures to ensure equal agency emphasis on the quality, fairness and timeliness of hearings and decisions.
  - Maintaining outreach to stakeholders to improve adjudication efficiency, limit improper claims, and promote understanding of the adjudicatory process to Government agencies, employee unions and affinity groups, management organizations, good government groups, and others.
  - Greater emphasis on enforcement of compliance decisions.<sup>3</sup>
  
- Preserving the integrity of merit studies; developing regulation oversight capabilities
  - Expanded promotion of merit studies to realize the full beneficial potential of study findings to the rest of the government.
  - Escalating outreach with Government agencies and other groups on policy and practice issues that affect MSPs and PPPs, restricting the implementation and impact of study recommendations and the coordination of research planning.
  - Meet appropriate staffing levels to fulfill 'new' mission requirements (regulation oversight).
  
- Enhancements to the flexibility and stability of the MSPB workforce
  - Improve employee development, career training and management opportunities to support sudden adjustments in mission operations.
  - Create opportunities for legal staff to cross train as mediators and specialists to support sudden service demands (such as through a RIF, etc.).
  - FTE to allow for workforce planning for retirements.

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<sup>3</sup> Title 5 U.S.C. § 1204(a)(2)

## Discussion of Performance Measures and Goals

The MSPB Performance Plan for FY 2012 was based on the MSPB *Strategic Plan for FY 2012 - 2016*. An interim summary of MSPB's program performance is provided below.

**Strategic Goal 1:** Serve the public interest by *protecting* the Merit System Principles and *safeguarding* the civil service from Prohibited Personnel Practices.

Interim FY 2012 results indicate that MSPB met or exceeded its adjudication performance goals related to: decision quality for initial appeals, cases left unchanged by the U.S. Court of Appeals for the Federal Circuit, processing time for initial appeals, electronic filing of initial appeals, and electronic filing of pleadings. The targets for average processing time for petitions for review (PFRs) and for enforcement cases were not met. Among other factors, a relatively large number of vacancies among the writing attorneys who draft PFR decisions adversely affected the PFR processing time. The relatively small number of enforcement cases means that one or two cases can have a significant impact on the average processing time for these cases. MSPB will undertake a program evaluation of the PFR process to identify how timeliness can be improved while maintaining the quality of PFR decisions. In addition, MSPB's new regulations that take effect in November of 2012 may have a positive impact on processing timeliness for PFRs and for enforcement cases. Due to limited resources and competing priorities, MSPB postponed achievement of its performance goals related to surveying customers regarding their satisfaction with the adjudication and alternative dispute resolution processes.

MSPB met its performance goal for the number of merit system studies and published three editions of its *Issues of Merit* newsletter. Merit system study topics included employee perceptions of Federal workplace violence, motivating employees through job design and rewards, and merit-based stewardship of the Federal workforce. MSPB determined that it is more appropriate and practical to survey merit system study customers every few years rather than every year. Due to limited resources and competing priorities, MSPB postponed achievement of the targets for the performance goals related to conducting after-action reviews of MSPB internal processes for reviewing the rules, regulations and significant actions of the Office of Personnel Management. The MSPB Annual Report for FY 2011 contained a broader range of OPM significant actions, updates of actions initiated earlier, and additional context information.

**Strategic Plan Goal 2:** Advance the public interest through education and promotion of stronger merit systems, adherence to Merit System Principles, and prevention of Prohibited Personnel Practices.

MSPB met its performance goals related to informing and encouraging action by policy makers. Key contacts with policy-makers included the MSPB Chairman's testimony before the Senate authorizing Subcommittee. MSPB work was cited in the media and by the Office of the Special Counsel in Congressional testimony. MSPB posted text and linked video of the Chairman's testimony on the MSPB website. Interim web usage data showed hundreds of thousands of visits to the MSPB website or accesses to web-based documents related to improving the practice of merit or the understanding of merit. MSPB conducted dozens of outreach events over the course of the year covering legal issues (including new MSPB regulations), MSPB studies, and other issues. MSPB posted merit systems educational materials including summaries of 8 PPPs of the month, training videos, case reports, live radio interviews, and oral argument materials.

## Management Assurances

### *Federal Managers' Financial Integrity Act (FMFLA)*

In accordance with the FMFLA, 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)*

The purpose of the Federal Financial Management Improvement Act of 1996 (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 the 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. This is particularly important, as budgets have become increasingly tight.

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 Chief Financial Officer 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 2012.

## Message from the Chief Financial Officer

I am pleased to present the U.S. Merit Systems Protection Board (MSPB) financial statements for fiscal year 2012 and to report that MSPB has earned an unqualified opinion on its FY 2012 consolidated financial statements. I am also particularly pleased to report that, once again, under the leadership of our Chairman, Susan Tsui Grundmann, no material weaknesses were identified in the auditor's report on internal controls. As in previous years, we are proud of our accomplishments in receiving this unqualified opinion as it validates our efforts in preserving the integrity of our financial reporting.

MSPB has partnered with the Department of the Treasury Bureau of Public Debt (BPD) in Parkersburg, West Virginia, since 1992. BPD, designated by the Office of Management and Budget as a Center of Excellence, 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 between 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 efforts to increase the use of e-Government applications.

We take our financial accountability seriously and are committed to strengthening our financial performance. While we are proud of our accomplishment of receiving unqualified opinions for the past ten 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.



Kevin J. Nash  
Chief Financial Officer  
November 8, 2012

## 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 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 the 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 2011 and FY 2012.



**U.S. MERIT SYSTEMS PROTECTION BOARD  
FINANCIAL STATEMENTS  
FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2012 AND 2011**

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**U.S. MERIT SYSTEMS PROTECTION BOARD**  
**BALANCE SHEET**  
**AS OF SEPTEMBER 30, 2012 AND 2011**  
(In Dollars)

	2012	2011
<b>Assets :</b>		
Intragovernmental		
Fund Balance With Treasury (Note 2)	\$ 9,782,730	\$ 9,070,597
Accounts Receivable (Note 3)	-	2,877
Other (Note 5)	81,998	-
<b>Total Intragovernmental</b>	<b>9,864,728</b>	<b>9,073,474</b>
Accounts Receivable, Net (Note 3)	335	3,093
Property, Equipment, and Software, Net (Note 4)	169,029	151,721
<b>Total Assets</b>	<b>\$ 10,034,092</b>	<b>\$ 9,228,288</b>
<b>Liabilities :</b>		
Intragovernmental		
Accounts Payable	\$ 39,011	\$ 27,405
Other (Note 8)	424,639	444,466
<b>Total Intragovernmental</b>	<b>463,650</b>	<b>471,871</b>
Accounts Payable	111,655	291,255
Federal Employee and Veterans' Benefits (Note 6 & 7)	559,268	631,564
Other (Note 8)	4,023,373	4,017,109
<b>Total Liabilities</b>	<b>\$ 5,157,946</b>	<b>\$ 5,411,799</b>
<b>Net Position:</b>		
Unexpended Appropriations - Other Funds	7,889,792	6,892,918
Cumulative Results of Operations - Other Funds	(3,013,646)	(3,076,429)
<b>Total Net Position</b>	<b>\$ 4,876,146</b>	<b>\$ 3,816,489</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 10,034,092</b>	<b>\$ 9,228,288</b>

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

**U.S. MERIT SYSTEMS PROTECTION BOARD**  
**STATEMENT OF NET COST**  
**FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2012 AND 2011**  
**(In Dollars)**

	2012	2011
<b>Program Costs: (Note 10)</b>		
Adjudication		
Gross Costs	\$ 36,340,285	\$ 37,171,238
Less: Earned Revenue	(127,192)	(9,010)
Net Program Costs	\$ 36,213,093	\$ 37,162,228
Management Support		
Gross Costs	\$ 5,164,807	\$ 4,810,044
Net Program Costs	\$ 5,164,807	\$ 4,810,044
Merit Systems Studies		
Gross Costs	\$ 1,913,985	\$ 2,184,905
Total Other Program Costs:	\$ 1,913,985	\$ 2,184,905
Net Cost of Operations	\$ 43,291,885	\$ 44,157,177

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

**U.S. MERIT SYSTEMS PROTECTION BOARD**  
**STATEMENT OF CHANGES IN NET POSITION**  
**FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2012 AND 2011**  
(In Dollars)

	2012	2011
<b>Cumulative Results of Operations:</b>		
Beginning Balances	\$ (3,076,429)	\$ (3,026,509)
<b>Budgetary Financing Sources:</b>		
Appropriations Used	38,761,460	39,079,442
Transfers In/Out Without Reimbursement	2,345,000	2,579,000
<b>Other Financing Sources (Non-Exchange):</b>		
Imputed Financing Sources (Note 11)	2,248,208	2,448,815
Total Financing Sources	43,354,668	44,107,257
Net Cost of Operations	(43,291,885)	(44,157,177)
Net Change	62,783	(49,920)
Cumulative Results of Operations	\$ (3,013,646)	\$ (3,076,429)
<b>Unexpended Appropriations:</b>		
Beginning Balances	\$ 6,892,918	\$ 5,805,644
<b>Budgetary Financing Sources:</b>		
Appropriations Received	40,258,000	40,339,000
Other Adjustments	(499,666)	(172,284)
Appropriations Used	(38,761,460)	(39,079,442)
Total Budgetary Financing Sources	996,874	1,087,274
Total Unexpended Appropriations	\$ 7,889,792	\$ 6,892,918
Net Position	\$ 4,876,146	\$ 3,816,489

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

**U.S. MERIT SYSTEMS PROTECTION BOARD**  
**STATEMENT OF BUDGETARY RESOURCES**  
**FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2012 AND 2011**  
(In Dollars)

	2012	2011
<b>Budgetary Resources:</b>		
Unobligated Balance Brought Forward, October 1	\$ 3,399,615	\$ 3,000,932
Recoveries of Prior Year Unpaid Obligations	669,914	257,577
Other changes in unobligated balance	(499,666)	(91,606)
Unobligated balance from prior year budget authority, net	3,569,863	3,166,903
Appropriations	40,258,000	40,258,322
Spending authority from offsetting collections	2,472,194	2,588,009
<b>Total Budgetary Resources</b>	<b>\$ 46,300,057</b>	<b>\$ 46,013,234</b>
<b>Status of Budgetary Resources:</b>		
Obligations Incurred (Note 13)	\$ 41,443,212	\$ 42,613,619
Unobligated balance, end of year: (Note 2)		
Apportioned	1,896,210	857,209
Unapportioned	2,960,635	2,542,406
<b>Total unobligated balance, end of year</b>	<b>4,856,845</b>	<b>3,399,615</b>
<b>Total Budgetary Resources</b>	<b>\$ 46,300,057</b>	<b>\$ 46,013,234</b>
<b>Change in Obligated Balance:</b>		
Unpaid Obligations, Brought Forward, October 1	\$ 5,673,859	\$ 5,279,078
Uncollected customer payments from Federal sources, brought forward, October 1	(2,877)	(910)
Obligated balance, start of year	5,670,982	5,278,168
Obligations Incurred	41,443,212	42,613,619
Outlays (gross)	(41,521,272)	(41,961,261)
Change in uncollected customer payments from Federal Sources	2,877	(1,967)
Recoveries of Prior Year Unpaid	(669,914)	(257,577)
Obligated balance, end of year		
Unpaid obligations, end of year	4,925,885	5,673,859
Uncollected customer payments from Federal sources, end of year	-	(2,877)
<b>Obligated balance, end of year (Note 2)</b>	<b>\$ 4,925,885</b>	<b>\$ 5,670,982</b>
<b>Budget Authority and Outlays, Net:</b>		
Budget authority, gross	\$ 42,730,194	\$ 42,846,331
Actual offsetting collections	(2,475,069)	(2,586,042)
Change in uncollected customer payments from Federal sources	2,877	(1,967)
<b>Budget Authority, net</b>	<b>\$ 40,258,002</b>	<b>\$ 40,258,322</b>
Outlays, gross	\$ 41,521,272	\$ 41,961,261
Actual offsetting collections	(2,475,069)	(2,586,042)
<b>Outlays, net</b>	<b>\$ 39,046,203</b>	<b>\$ 39,375,219</b>

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



## U. S. 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. 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.

MSPB has rights and ownership of all assets reported in these financial statements. 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 follow the rules for the Budget of the United States Government.

The statements are a requirement of the Chief Financial Officers Act of 1990, the Government Management Reform Act of 1994 and the Accountability of Tax Dollars Act of 2002. 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 issued by the Federal Accounting Standards Advisory Board (FASAB), Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*, as amended, 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 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 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:

<u>Description</u>	<u>Useful Life (years)</u>
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.

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 represents 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, and actuarial FECA,. 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 50% beginning FY 2010 and 100% in 2014.

### **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**

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.

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 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, as the administrator.

#### **L. Other Post-Employment Benefits**

MSPB employees eligible to participate in the Federal Employees' Health Benefits Plan (FEHBP) and the Federal Employees' Group Life Insurance Program (FEGSLIP) 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. MSPB recognized imputed costs and financing sources in fiscal years 2012 and 2011 to the extent directed by accounting standards.

#### **O. 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.

#### **P. Reclassification**

Certain fiscal year 2011 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, 2012 and 2011, were as follows:

	2012	2011
<b>Fund Balances:</b>		
Appropriated Funds	9,782,730	9,070,597
<b>Total</b>	<b>\$ 9,782,730</b>	<b>\$ 9,070,597</b>

### **Status of Fund Balance with Treasury:**

Unobligated Balance		
Available	\$ 1,896,210	\$ 857,209
Unavailable	2,960,635	2,542,406
Obligated Balance Not Yet Disbursed	4,925,885	5,670,982
<b>Total</b>	<b>\$ 9,782,730</b>	<b>\$ 9,070,597</b>

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 13).

### NOTE 3. ACCOUNTS RECEIVABLE

Accounts receivable balances as of September 30, 2012 and 2011, were as follows:

	2012	2011
Intragovernmental		
Accounts Receivable	\$ -	\$ 2,877
<b>Total Intragovernmental Accounts Receivable</b>	<b>\$ -</b>	<b>\$ 2,877</b>
With the Public		
Accounts Receivable	335	3,093
<b>Total Public Accounts Receivable</b>	<b>\$ 335</b>	<b>\$ 3,093</b>
<b>Total Accounts Receivable</b>	<b>\$ 335</b>	<b>\$ 5,970</b>

The accounts receivable is primarily made up of employee receivables.

Historical experience has indicated that the majority of the receivables are collectible. There are no material uncollectible accounts as of September 30, 2012 and 2011.

### NOTE 4. PROPERTY, EQUIPMENT, AND SOFTWARE

Schedule of Property, Equipment, and Software as of September 30, 2012

Major Class	Acquisition Cost	Accumulated Amortization/Depreciation	Net Book Value
Leasehold Improvements	\$ 1,785,765	\$ 1,616,736	\$ 169,029
Furniture & Equipment	73,776	73,776	-
Software	9,415,576	9,415,576	-
<b>Total</b>	<b>\$ 11,275,117</b>	<b>\$ 11,106,088</b>	<b>\$ 169,029</b>

Schedule of Property, Equipment, and Software as of September 30, 2011

Major Class	Acquisition Cost	Accumulated Amortization/Depreciation	Net Book Value
Leasehold Improvements	\$ 1,702,413	\$ 1,550,692	\$ 151,721
Furniture & Equipment	73,776	73,776	-
Software	9,415,576	9,415,576	-
<b>Total</b>	<b>\$ 11,191,765</b>	<b>\$ 11,040,044</b>	<b>\$ 151,721</b>

## NOTE 5. OTHER ASSETS

Other assets account balances as of September 30, 2012 and 2011, were as follows:

	2012	2011
Intragovernmental		
Advances and Prepayments	\$ 81,998	\$ -
<b>Total Intragovernmental Other Assets</b>	<b>\$ 81,998</b>	<b>\$ -</b>

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 MSPB as of September 30, 2012 and 2011, 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.

	2012	2011
Intragovernmental – FECA	\$ 96,584	\$ 117,277
Unfunded Leave	2,527,158	2,482,401
Actuarial FECA	559,268	631,564
<b>Total Liabilities Not Covered by Budgetary Resources</b>	<b>\$ 3,183,010</b>	<b>\$ 3,231,242</b>
<b>Total Liabilities Covered by Budgetary Resources</b>	<b>1,974,936</b>	<b>2,180,557</b>
<b>Total Liabilities</b>	<b>\$ 5,157,946</b>	<b>\$ 5,411,799</b>

FECA liability represents the unfunded liability for actual workers compensation claims benefits paid on MSPB's behalf and are payable to the DOL. 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 MSPB when funding becomes available.

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, 2012 and 2011, was \$559,268 and \$631,564, respectively.

**NOTE 8. OTHER LIABILITIES**

Other liabilities account balances as of September 30, 2012 were as follows:

	Current	Non Current	Total
Intragovernmental			
FECA Liability	\$ 63,471	\$ 33,113	\$ 96,584
Payroll Taxes Payable	328,055	-	328,055
<b>Total Intragovernmental Other Liabilities</b>	<b>\$ 391,526</b>	<b>\$ 33,113</b>	<b>\$ 424,639</b>
With the Public			
Payroll Taxes Payable	\$ 50,920	\$ -	\$ 50,920
Accrued Funded Payroll and Leave	1,445,295	-	1,445,295
Unfunded Leave	2,527,158	-	2,527,158
<b>Total Public Other Liabilities</b>	<b>\$ 4,023,373</b>	<b>\$ -</b>	<b>\$ 4,023,373</b>

Other liabilities account balances as of September 30, 2011 were as follows:

	Current	Non Current	Total
Intragovernmental			
FECA Liability	\$ 71,295	\$ 45,982	\$ 117,277
Payroll Taxes Payable	327,189	-	327,189
<b>Total Intragovernmental Other Liabilities</b>	<b>\$ 398,484</b>	<b>\$ 45,982</b>	<b>\$ 444,466</b>
With the Public			
Payroll Taxes Payable	\$ 51,049	\$ -	\$ 51,049
Accrued Funded Payroll and Leave	1,483,659	-	1,483,659
Unfunded Leave	2,482,401	-	2,482,401
<b>Total Public Other Liabilities</b>	<b>\$ 4,017,109</b>	<b>\$ -</b>	<b>\$ 4,017,109</b>

## NOTE 9. LEASES

### Operating Leases

MSPB occupies office space or warehouse space at two locations with lease agreements that are accounted for as operating leases. The first lease for office space Washington Regional Office (WRO) began on September 15, 2000 and expired on September 14, 2010. The lease has been extended by executing a Supplemental Lease Agreement (SLA) for 3 years. The SLA for WRO expires on September 8, 2013. The agency currently pays an annual rent of \$212,520. Operating costs are subject to annual adjustments, based on the percentage change in the Cost of Living Index.

The second lease (Washington, DC warehouse) began on April 1, 2003 and expires on March 31, 2013. The agency pays annual rent of \$31,824, increased each year by 4% beginning with the first anniversary of the lease commencement date. .

#### Asset Category

Fiscal Year	Building	Totals
2013	\$ 227,258	\$ 227,258
Thereafter	-	-
<b>Total Future Payments</b>	<b>\$ 227,258</b>	<b>\$ 227,258</b>

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 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:

	2012	2011
<b>Adjudication</b>		
Intragovernmental Costs	\$ 10,849,997	\$ 10,784,418
Public Costs	25,490,288	26,386,821
<b>Total Program Costs</b>	<b>36,340,285</b>	<b>37,171,238</b>
Intragovernmental Earned Revenue	(127,192)	(3,410)
Public Earned Revenue	-	(5,600)
<b>Net Program Costs</b>	<b>36,213,093</b>	<b>37,162,228</b>
<b>Management Support</b>		
Intragovernmental Costs	1,288,601	1,206,871
Public Costs	3,876,206	3,603,173
<b>Total Program Costs</b>	<b>5,164,807</b>	<b>4,810,044</b>
<b>Net Program Costs</b>	<b>5,164,807</b>	<b>4,810,044</b>
<b>Merit Systems Studies</b>		
Intragovernmental Costs	328,615	356,785
Public Costs	1,585,371	1,828,120
<b>Total Program Costs</b>	<b>1,913,985</b>	<b>2,184,905</b>
<b>Net Program Costs</b>	<b>1,913,985</b>	<b>2,184,905</b>
<b>Total Intragovernmental costs</b>	<b>12,467,212</b>	<b>12,348,073</b>
<b>Total Public costs</b>	<b>30,951,865</b>	<b>31,818,114</b>
<b>Total Costs</b>	<b>43,419,077</b>	<b>44,166,187</b>
Total Intragovernmental Earned Revenue	(127,192)	(3,410)
Total Public Earned Revenue	-	(5,600)
<b>Total Net Cost</b>	<b>\$ 43,291,885</b>	<b>\$ 44,157,177</b>

**NOTE 11. 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, OPM. For the fiscal years ended September 30, 2012 and 2011, respectively, imputed financing was as follows:

	2012	2011
Office of Personnel Management	\$ 2,248,208	\$ 2,448,365
Treasury Judgment Fund	-	450
<b>Total Imputed Financing Sources</b>	<b>\$ 2,248,208</b>	<b>\$ 2,448,815</b>

**NOTE 12. BUDGETARY RESOURCE COMPARISONS TO THE BUDGET OF THE UNITED STATES GOVERNMENT**

The President's Budget that will include fiscal year 2012 actual budgetary execution information has not yet been published. The President's Budget is scheduled for publication in February 2013 and can be found at the OMB Web site: <http://www.whitehouse.gov/omb/>. The 2013 Budget of the United States Government, with the "Actual" column completed for 2011, has been reconciled to the Statement of Budgetary Resources and there were no material differences.

**NOTE 13. APPORTIONMENT CATEGORIES OF OBLIGATIONS INCURRED**

Obligations incurred and reported in the Statement of Budgetary Resources in 2012 and 2011 consisted of the following:

	2012	2011
Direct Obligations, Category A	\$ 38,971,020	\$ 40,025,609
Reimbursable Obligations, Category A	2,472,192	2,588,010
<b>Total Obligations Incurred</b>	<b>\$ 41,443,212</b>	<b>\$ 42,613,619</b>

Category A apportionments distribute budgetary resources by fiscal quarters.

**NOTE 14. UNDELIVERED ORDERS AT THE END OF THE PERIOD**

For the fiscal years ended September 30, 2012 and 2011, budgetary resources obligated for undelivered orders amounted to \$3,032,947 and \$3,493,301 respectively.

**NOTE 15. CUSTODIAL ACTIVITY**

MSPB's custodial collection primarily consists of Freedom of Information Act requests. While these collections are considered custodial, they are neither primary to the mission of MSPB nor material to the overall financial statements. MSPB's total custodial collections are \$1,402 and \$1,760 for the years ended September 30, 2012, and 2011, respectively.

## NOTE 16. 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.

**U.S. MERIT SYSTEMS PROTECTION BOARD**  
**RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET**  
**FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2012 AND 2011**  
**(In Dollars)**

	2012	2011
<b>Resources Used to Finance Activities:</b>		
Budgetary Resources Obligated		
Obligations Incurred	\$ 41,443,212	\$ 42,613,619
Spending Authority From Offsetting Collections and Recoveries	(3,142,108)	(2,845,586)
Net Obligations	38,301,104	39,768,033
Other Resources		
Imputed Financing From Costs Absorbed By Others	2,248,208	2,448,815
Net Other Resources Used to Finance Activities	2,248,208	2,448,815
Total Resources Used to Finance Activities	40,549,312	42,216,848
Resources Used to Finance Items Not Part of the Net Cost of Oper	2,631,771	1,847,959
Total Resources Used to Finance the Net Cost of Operations	43,181,083	44,064,807
Components of the Net Cost of Operations That Will Not Require or Generate Resources in the Current Period:		
	110,802	92,370
Net Cost of Operations	\$ 43,291,885	\$ 44,157,177



**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, 2012 and 2011 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). These financial statements are the responsibility of MSPB's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; 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*, as amended. Those standards and OMB Bulletin No. 07-04, as amended, 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, 2012 and 2011 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, as amended, we have also issued reports our dated November 9, 2012 on our consideration of the MSPB internal control over financial reporting and its compliance with certain 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.

Accounting principles generally accepted in the United States of America require that the Management Discussion and Analysis (MD&A) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by OMB Circular A-136, *Financial Reporting Requirements*, as revised, that considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.





**INDEPENDENT AUDITOR'S REPORT  
ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

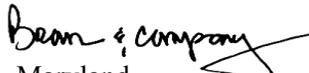
U.S. Merit Systems Protection Board  
Washington, D.C.

We have audited the financial statements of the U.S. Merit Systems Protection Board (MSPB) as of and for the year ended September 30, 2012 and have issued our report thereon dated November 9, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *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*, as amended.

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, as amended. 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 a material weakness or significant deficiency. Under standards issued by the American Institute of Certified Public Accountants and OMB Bulletin No. 07-04, as amended, 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 in internal control, 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. 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 a material weaknesses as defined above.

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.

  
Largo, Maryland  
November 9, 2012



**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, 2012 and have issued our report thereon dated November 9, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *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*, as amended.

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, as amended. We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to the MSPB.

The results of our tests of compliance with laws and regulations disclosed no material noncompliance with 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, as amended.

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.

Largo, Maryland  
November 9, 2012