

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



**Performance and Accountability Report**  
**for**  
**Fiscal Year 2006**

**November 15, 2006**



## Forward

The Merit Systems Protection Board (MSPB or the Board) presents its Performance and Accountability Report (PAR) for fiscal year (FY) 2006. This report contains the annual audited financial statement required by the Accountability of Tax Dollars Act (ATDA) and the annual performance report required by the Government Performance and Results Act (GPRA). The financial accountability report section of the PAR also includes the annual report on internal controls required by the Federal Managers' Financial Integrity Act (FMFIA).

The PAR has been prepared in accordance with guidance provided by the Office of Management and Budget (OMB) and other sources. The MSPB PAR for FY 2006 was prepared by Government employees, except for the audit which was conducted by independent auditors. MSPB will duplicate and bind copies of the FY 2006 PAR sufficient for the November 15, 2006 distribution to the President, OMB and Congress, and will make the PAR available in electronic form on the MSPB website ([www.mspb.gov](http://www.mspb.gov)). The PAR will be printed at a later date and copies may be ordered from the Clerk of the Board, Merit Systems Protection Board, 1615 M Street, NW, Washington, DC 20419.

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

Merit Systems Protection Board  
ATTN: Comments on the PAR for FY 2006  
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# The Merit Systems Protection Board Performance and Accountability Report for Fiscal Year 2006

## Message from the Chairman



I am pleased to submit the Merit Systems Protection Board's (MSPB) Performance and Accountability Report (PAR) for FY 2006. The accomplishments presented here are the result of the expertise and dedication of our employees, with whom Vice Chairman Rose, Member Sapin and I are proud to serve. I am pleased to report that MSPB met or exceeded all of its FY 2006 performance goals. In addition, the Board received a clean audit of its financial statements for FY 2006.

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

FY 2006 was a very successful year for MSPB. The regional and field offices continued their timely and high quality adjudication of initial appeals. The headquarters offices continued to improve the timeliness of processing petitions for review while maintaining the high quality of those decisions. MSPB continued to effectively use alternative procedures to resolve appeals, when appropriate. We published eight merit systems study reports and four editions of our *Issues of Merit* newsletter. We also hosted a symposium on the practice of merit featuring presentations on how agencies with exemptions from traditional requirements in Title 5 meet merit principles in hiring, promotion and retention. The topics of the external merit systems study reports included designing effective pay for performance systems, managing contracting officer representatives to ensure positive contract outcomes, reforming Federal hiring, navigating the probationary period in the context of important Court decisions, and the proceedings of our symposium. We continue to effectively manage our human capital, information management and financial resources programs in support of our statutory missions and in accordance with applicable laws, resulting in a clean audit for the fourth successive year. These results are reported in detail in the program performance and financial accountability sections of this report.

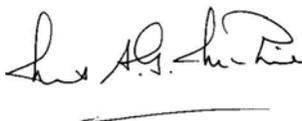
This year was marked by continued changes in Federal human capital management including introduction of legislation to improve performance management Governmentwide. The Departments of Homeland Security (DHS) and Defense (DoD) are beginning to implement the performance-based compensation portions of their new systems, while litigation continues on the labor relations and appeals components of the DoD system. Regardless of the outcome of the

litigation, the new systems will likely require establishing new legal precedents that will affect our adjudicatory function and will make our studies role more complex. The Board is committed to meeting these challenges by ensuring we use effective and efficient processes and retaining the experienced staff we need to accomplish our work.

It is also my pleasure to report the appointment of Mary M. Rose as Vice Chairman of the Board, following her confirmation as the Board's third Board member in early FY 2006. Vice Chairman Rose's appointment as the final member of our three-person Board strengthens MSPB's ability to protect merit and issue important precedent-setting cases, especially those related to new human resources management systems.

Finally, this report provides a variety of legally required assurances regarding our performance and financial data, management controls and financial systems. In accordance with law and OMB guidance, I have determined that the performance and financial data included in this report are complete and reliable. All data reported were obtained from final FY 2006 statistical reports from the agency's case management system, final FY 2006 financial reports and reports submitted by the agency's program managers. There are no material inadequacies or non-conformances in either the completeness or reliability of the performance or financial data. In addition, following an assessment of MSPB's comprehensive management control program, I certify, with reasonable assurance, that MSPB's systems of accounting and internal control are in compliance with the provisions of the Federal Managers' Financial Integrity Act.

Respectfully,

A handwritten signature in black ink, appearing to read "Neil A. G. McPhie". The signature is fluid and cursive, with a horizontal line drawn underneath it.

Neil A. G. McPhie  
Chairman

November 15, 2006

## Management Discussion and Analysis

### About the Merit Systems Protection Board

#### *Agency Mission*

The Merit Systems Protection Board is an independent quasi-judicial agency established to protect Federal merit systems against partisan political and other prohibited personnel practices. The Board carries out its statutory mission principally by:

- Adjudicating employee appeals of personnel actions over which the Board has jurisdiction, such as removals, suspensions, furloughs and demotions;
- Adjudicating appeals of administrative decisions affecting an individual's rights or benefits under the Civil Service Retirement System or the Federal Employees' Retirement System;
- Adjudicating employee complaints filed under the Whistleblower Protection Act (WPA), the Uniformed Services Employment & Reemployment Rights Act (USERRA), and the Veterans Employment Opportunities Act (VEOA);
- Adjudicating cases brought by the Special Counsel, principally complaints of prohibited personnel practices and Hatch Act violations;
- Adjudicating requests to review regulations of the Office of Personnel Management (OPM) that allegedly require or have required the commission of a prohibited personnel practice—or reviewing such regulations on the Board's own motion;
- Ordering compliance with final Board orders where appropriate; and
- Conducting studies of the Federal civil service and other merit systems in the Executive Branch to ensure the workforce is managed under the merit principles and are free from prohibited personnel practices, and reviewing the significant actions of the Office of Personnel Management to determine whether such actions are in accord with the merit system principles.

#### *Board Organization*

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

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

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

The **Office of the Clerk of the Board (OCB)** receives and processes cases filed at Board headquarters, rules on certain procedural matters, and issues the Board's decisions and orders. The office serves as the Board's public information center, coordinates media relations, produces public information publications, operates the Board'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 the Board's records and directives systems, legal research programs, and the Government in the Sunshine Act program.

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

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

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

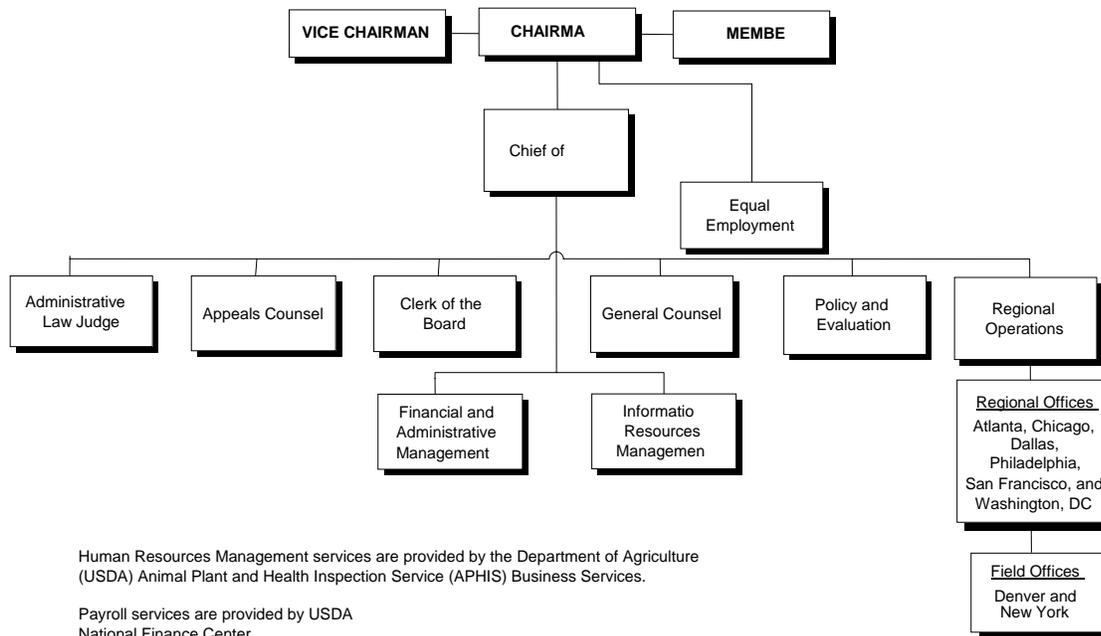
The **Office of Information Resources Management (IRM)** develops, implements and maintains the Board's automated information systems to help the Board manage its caseload efficiently and carry out its administrative and research responsibilities.

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

The **Office of Regional Operations (ORO)** oversees the eight MSPB regional and field offices, which receive and process appeals and related cases. Administrative judges in the regional and field offices are responsible for adjudicating assigned cases and for issuing fair and well-reasoned initial decisions.

*Organization Chart*

**Merit Systems Protection Board**



Human Resources Management services are provided by the Department of Agriculture (USDA) Animal Plant and Health Inspection Service (APHIS) Business Services.

Payroll services are provided by USDA National Finance Center.

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

**Performance Goals and Results**

The MSPB Performance Plan for FY 2006 - FY 2007 consisted of 28 performance goals associated with the three strategic goals described in the agency's Strategic Plan for FY 2004 - FY 2009. The MSPB exceeded or met all of its 28 performance goals. Highlights of our program performance for FY 2006 are presented here and detailed performance information is available in the program performance section.<sup>1</sup>

*Strategic Plan Goal 1- Adjudication*

MSPB exceeded 6, and met or essentially met 8 of its 14 performance goals under the adjudication strategic goal. The Board continues to issue high quality decisions as evidenced by 93% of cases left

<sup>1</sup> The performance goals and targets for FY 2006 and FY 2007 are those described in the MSPB Performance Budget for Fiscal 2006 submitted to the Congress on February 6, 2006. The performance goals for FY 2007 will likely be revised based on the update of our FY 2007 – FY 2012 Strategic Plan which is now being distributed for consultation. The Revised Final Performance Plan for FY 2007 will be completed by December 31, 2006.

unchanged by the U.S. Court of Appeals for the Federal Circuit (the Court). We met our target for processing initial appeals in the regions with an average processing time of 89 days. Even though we adjusted our FY 2006 targets, earlier improvements in headquarters processes resulted in exceeding our quality and timeliness targets for PFR processing at headquarters. We continued to use alternative methods to successfully resolve cases, when appropriate. We exceeded our target for settlement of initial appeals, met our target for settlement of PFRs, and exceeded the target for our Mediation Appeals Program (MAP). We continued to improve the electronic appeals, automated case management and document preparation systems. These systems help us more effectively and efficiently track and process cases, make it is easier for appellants and agencies to submit appeals and other case materials, and make communication more efficient among MSPB, appellants and agencies.

### *Strategic Plan Goal 2 - Merit Systems Studies*

MSPB exceeded 3 and met 3 of the 6 merit systems studies performance goals. We published eight merit systems studies and four editions of the *Issues of Merit* newsletter. The topics of these studies included designing effective pay for performance systems, managing contracting officer representatives to ensure positive contract outcomes, reforming Federal hiring, navigating probationary periods after the *VanWersch* and *McCormick* Court decisions, and the proceedings from our symposium, "The Practice of Merit." In addition, we conducted a large number of outreach events with HR professionals, managers and employees in Washington and throughout the United States. We also contributed to international exchanges with government officials from at least seven countries. We completed three reports based on data from our MPS 2005, including baseline reports on the DHS and DoD personnel systems. Our symposium on the practice of merit included presentations from several other agencies on how they protect merit in hiring, promotion and retention using procedures beyond the traditional authorities contained in Title 5.

### *Strategic Plan Goal 3 - Management Support*

MSPB met all 8 of the performance goals under this strategic goal. We continue to adjust and modernize our human resources management programs and to make effective and efficient use of automation and information technology to accomplish our work. We received a clean audit on all of our financial statements for the fourth straight year.

## **Financial Statements**

As of September 30, 2006, the financial condition of the Merit Systems Protection Board was sound with respect to having sufficient funds to meet program needs and adequate controls of these funds in place to ensure that obligations did not exceed budget authority. The MSPB prepared its financial statements in accordance with accounting standards codified in *Statements of Federal Accounting Standards* and OMB Circular A-136, *Financial Reporting Requirements*.

The Program and Financing Schedule shows the dollar and full-time equivalent (FTE) resources devoted to each of the three MSPB strategic goals which are aligned with our budget activities. It shows actual spending for fiscal years 2005 and 2006, and projected spending for fiscal year 2007.

<b>Summary by Budget Activity (Dollars In Thousands)</b>						
	<b>2005</b>		<b>2006</b>		<b>2007 (projected)</b>	
<b>Budget Activity</b>	<b>FTE</b>	<b>Amt</b>	<b>FTE</b>	<b>Amt</b>	<b>FTE</b>	<b>Amt</b>
Adjudication	184	28,973	184	29,434	198	31,301
Merit System Studies	10	1,422	12	1,721	12	1,786
Management Support	28	3,739	29	3,884	26	3,444
Total Appropriated	222	34,134	225	35,039	236	36,531
Trust Fund Limitation	*	2,605		2,579	-	2,579
<b>Total Available</b>	222	36,739	225	37,618	236	39,110

In FY 2006, about 85 percent of the agency's resources were spent on the adjudication function, which processes the approximately 8,500 appeals the agency receives each year. Approximately 5 percent of our resources were devoted to the merit system study function which conducts studies of the Federal merit systems and makes recommendations for improvements. The remaining 10 percent of our resources were spent on management support, which provides the necessary administrative support to the agency as well as the development and implementation of information technology improvements, such as the President's management agenda item on e-government.

The principle financial statements have been prepared to report MSPB's financial position and results of operations pursuant to requirements of 31 U.S.C. 3515(b). While the statements have been prepared from MSPB's books and records in accordance with generally accepted accounting principles 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. The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

For the last several years, MSPB has received funding increases to cover most, but not all of the built-in cost increases for expenses such as pay raises. For FY 2007, there are built-in increases requested for pay raises and space rental increases. MSPB is also requesting funds to relocate the San Francisco Regional Office to space that is compliant with existing earthquake standards. Without full funding for all of the built-in cost increases that the agency is required to pay each year it would be hard to adjudicate the 8,500 appeals the agency receives in a timely fashion. This could delay the final resolution of personnel decisions adding cost and uncertainty to human resources (HR) management throughout the Federal government. In addition, it would make it difficult as MSPB awaits appeals from employees who are managed under the new DHS and DoD personnel management systems with their shorter appeals deadlines.

## Systems, Controls and Legal Compliance

### *Federal Managers' Financial Integrity Act*

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

During FY 2006, the MSPB continued its agreement with the Bureau of the Public Debt (BPD)—an OMB "Center of Excellence"—for that agency to process financial transactions, make administrative payments, and prepare various financial reports required by the Department of the Treasury and the OMB. This agreement continued into and through FY 2006. The BPD uses the latest financial and other software for processing travel and other expenses. This financial review arrangement promotes the accuracy and timeliness of MSPB's financial records.

### *Improper Payments Act*

MSPB has determined that there is no significant risk of improper payments at MSPB based on the review of its programs in fiscal year 2006.

### *Management Controls*

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

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

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

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

## **Trends and Issues**

The most significant external trends affecting MSPB's ability to carry out its mission to protect the Federal merit systems are the continued emphasis on the use of more flexible human resources management practices, the changing demographics of the workforce, and increased pressure to reduce Federal spending. These factors will make MSPB's ability to hire and retain skilled staff all the more critical.

### *Alternative Human Resource Management Systems*

There continues to be an emphasis on more flexible human resources management policies and procedures. Greater flexibility eventually means greater complexity, which will increase the difficulty of work performed by MSPB and require even more emphasis on recruiting and retaining highly competent staff. In FY 2006, this was evidenced by further development of the DHS and DoD personnel systems, and the introduction of legislation to improve Governmentwide performance management. When the DHS and DoD systems are implemented, a larger proportion of the Federal workforce will be managed under more flexible pay and performance management authorities than those in the traditional system codified in Title 5 of the U.S. Code.

The DHS and DoD systems include provisions on pay for performance, appeals and labor relations. DoD also has some additional hiring authorities. Both DHS and DoD are continuing a phased implementation of their pay for performance provisions. However, the labor relations and appeals procedures of both systems have been blocked by the Courts. (*Chertoff v. NTEU*, 452 F.3d 839 (D.C. Cir. 2006) and *AFGE v. Rumsfeld*, 422 F. Supp. 2<sup>nd</sup> 16 (D.D.C. 2006)). It is unclear what will happen with the labor relations and appeals provisions of these new systems. However, even implementation of new pay for performance procedures will likely increase the complexity of our adjudication function and necessitate the development of additional legal precedents. In addition, possible enactment of Governmentwide performance management legislation could more broadly affect our appeals workload. While we monitor these issues, we will continue to process appeals from DHS and DoD employees based on existing laws and precedents including those involving provisions of the United States Code that could not be waived under the DHS and DoD laws. For example, these appeals may include those involving whistleblower rights, veteran's rights and administrative retirement decisions. We may receive some new appeals in accordance with the Court's decisions on the two systems.

The increasing number of employees who will be managed under new, non-traditional human resources management systems will also affect the Board's statutory mission to conduct studies of the merit systems. The DHS and DoD human resources management authorities, like the flexibilities granted to other agencies in recent years, provide that the Title 5 provisions governing merit system principles and prohibited personnel practices may not be waived, modified or otherwise affected. Therefore, as agency-specific merit systems spread in the Federal Government,

there will be an even greater need for MSPB to conduct studies of these new management systems to ensure that they are operating in accordance with merit system principles and free from prohibited personnel practices. Studying these new systems may also identify ways to improve the effectiveness and efficiency of Government operations.

Most observers agree that movement toward agency-specific or Governmentwide management changes will continue. The challenge for the Board will be to retain the experienced staff necessary to perform its role as chief protector of Federal merit systems, including those systems containing flexibilities designed to manage the 21<sup>st</sup> century civilian workforce.

#### *Changing demographics of the Federal workforce*

The increasing proportion of retirement-eligible Federal employees and the need to hire younger, less experienced employees to replace them, has significant potential impact on our appeals workload as well as on the need to ensure this multigenerational workforce continues to be managed under the merit principles. In general, older, more experienced employees are not subjected to as many appealable actions as are younger, less experienced employees. The average age of the current Federal workforce is the highest it has ever been. As employees retire and are replaced by younger employees, we would expect an increase in the number of appealable actions, thus an increase in our adjudicatory workload.

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

#### *Increased pressure to reduce Federal spending*

There is an increasing need to reduce the size of the Federal budget. As this pressure continues, it may lead to the need to reduce the size of the workforce, which may lead to increases in the number of employees who are involuntarily separated through reductions in force (RIF). If historical trends are accurate, this will lead to potentially large increases in the number of appeals to MSPB. It will be important for MSPB to monitor this possibility, and ensure it hires and retains sufficient staff to process these appeals in accordance with the law and with MSPB quality and timeliness standards.

#### *MSPB staff and leadership*

We need the right people with the right skills to adjudicate appeals, conduct merit systems studies and support those missions. We continue to anticipate and recruit for positions vacated by retiring and departing employees. In FY 2006, we also received support to add adjudicatory and studies staff in order to adjudicate appeals from, and study the impact of new, more flexible human resources management systems. In addition, we continue to successfully operate our senior management

development program that was designed and initiated in FY 2005. In FY 2006, the first group of fellows completed the program, thus increasing the pool of highly skilled and trained employees available for senior management positions when they become vacant in the next few years. We will continue these efforts to ensure we retain the right people with the right skills to accomplish our mission.

In addition, history has shown that independent, bipartisan review of employee disputes and unbiased studies of the merit systems are necessary to ensure the health of the merit systems and to assure the public that the Federal civilian workforce works in a merit-based environment free from abuse. It is particularly important in these times of civil service transformation that a full Board of three Senate-confirmed Members review and decide the potentially precedent-setting appeals originating from newly authorized alternative management systems. Mary M. Rose was designated Vice Chairman of the Board on January 27, 2006 following her confirmation as the Board's third Board member on December 17, 2005. The confirmation of Vice Chairman Rose strengthens the Board's ability to protect merit and issue important precedential decisions.



# Program Performance Report

## Adjudication Performance

### Summary

**Strategic Goal 1:** To provide fair, timely, and efficient adjudication of cases filed with the Board and to make effective use of alternative methods of dispute resolution in Board proceedings

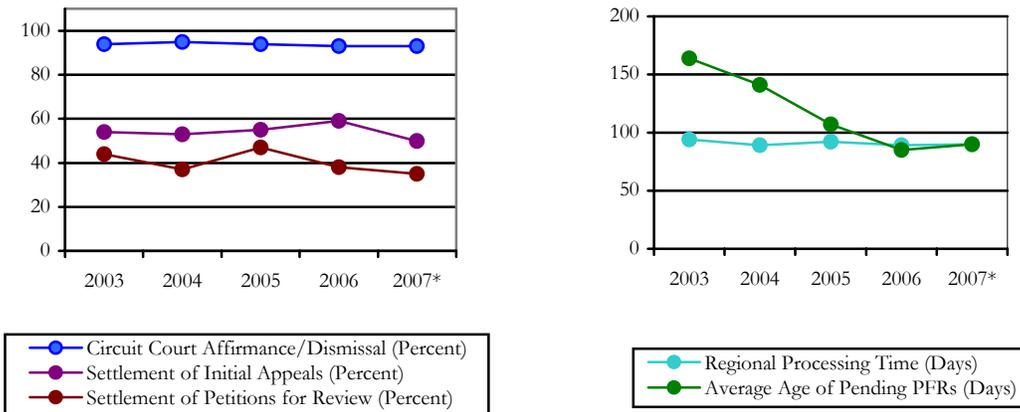
### Objectives

1. Issue high quality decisions.
2. Issue timely decisions at both the regional office and Board headquarters levels.
3. Continue alternative dispute resolution (ADR) procedures in MSPB proceedings at both the regional office and Board headquarters levels.
4. Hold increase in average case processing cost to no more than the percentage increase in operating costs, adjusted for the change in the number of decisions issued.
5. Implement an integrated, streamlined electronic case processing system that allows appellants and agencies to file and receive documents electronically.
6. Obtain customer input regarding the adjudicatory process.

### Resources

	FY 2006	FY 2007 (requested)
<b>\$ (000)</b>	\$32,013	\$33,880
<b>% Resources</b>	85	87

### Selected Results (\* Target level)



## Performance Goals and Results

### Objective 1: Issue high quality decisions

**Performance Goal 1.1.1** - Maintain/reduce low percentage of cases decided by the Board on petition for review (PFR) that are reversed and/or remanded to MSPB judges for a new decision.

Results		Targets	
FY 2003	11 %	FY 2006	10 % or less
FY 2004	6 %	FY 2007	10 % or less
FY 2005	7 %		
FY 2006	10 %		

This performance goal was **Met**. The precedential decision issued by the Federal Circuit in *Butterbaugh v. Department of Justice* had a significant impact on the relatively low number of PFRs that are reversed or remanded to MSPB judges. Excluding the 19 cases affected by this decision from the calculations results in a percentage of 10%, which meets the target. The FY 2007 target remains 10% or less.

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**Performance Goal 1.1.2** - Maintain/reduce low percentage of proposed decisions submitted by headquarters legal offices to the Board that are returned for rewrite.

Results		Targets	
FY 2003	6 %	FY 2006	10 % or less
FY 2004	3 %	FY 2007	8 % or less
FY 2005	3 %		
FY 2006	6 %		

This performance goal was **Exceeded**. The FY 2006 result was 40% less than the target value. However, based on performance over the previous few years, the FY 2007 target will be adjusted to 8% or less.

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**Performance Goal 1.1.3** - Maintain high percentage of Board decisions unchanged on review by the U.S. Court of Appeals for the Federal Circuit (Court dismisses case or affirms Board decision).

Results		Targets	
FY 2003	94 %	FY 2006	93 % or greater
FY 2004	95 %	FY 2007	93 % or greater
FY 2005	94 %		
FY 2006	93 %		

This performance goal was **Met**. The FY 2006 result was at the target level. The FY 2007 target will remain at 93% or greater.

## Objective 2: Issue timely decisions at both the regional office and Board headquarters levels

**Performance Goal 1.2.1** - Maintain average case processing time for initial decisions issued in regional offices.

Results		Targets	
FY 2003	94 days	FY 2006	100 days or less
FY 2004	89 days	FY 2007	90 days or less
FY 2005	92 days		
FY 2006	89 days		

This performance goal was **Exceeded**. The average processing time was more than 10% less than the target value. To increase the emphasis on timeliness, we have shortened the target for FY 2007 to 90 days or less.

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**Performance Goal 1.2.2** - Reduce average age of pending PFRs at Board headquarters

Results		Targets	
FY 2003	164 days	FY 2006	110 days or less
FY 2004	141 days	FY 2007	90 days or less
FY 2005	107 days		
FY 2006	85 days		

This performance goal was **Exceeded**. The FY 2006 result was 23% lower than the FY 2006 target and 38% lower than the average results for FYs 2003-2005. In accord with these result, and to continue our emphasis on timeliness, we have reduced the FY 2007 target to 90 days or less

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**Performance Goal 1.2.3** - Reduce and maintain the number of PFR cases pending at headquarters.

Results		Targets	
FY 2003	N/A (new goal in FY 2006)	FY 2006	400 or fewer
FY 2004	N/A (new goal in FY 2006)	FY 2007	345 or fewer
FY 2005	N/A (new goal in FY 2006)		
FY 2006	375 cases		

This performance goal was **Met**. The FY 2006 result was less than the FY 2006 target. To continue to emphasize managing the number of cases at headquarters, the FY 2007 target is set at 345 cases or less.

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**Performance Goal 1.2.4** - Reduce the number of cases pending at headquarters for more than 300 days.

Results		Targets	
FY 2003	73 cases	FY 2006	35 or fewer
FY 2004	33 cases	FY 2007	35 or fewer
FY 2005	21 cases		
FY 2006	15 cases		

This performance goal was **Exceeded**. The FY 2006 result was 57% less than the target. However, given the range in the number of these cases over the years, the FY 2007 target will remain at 35 cases or fewer.

**Performance Goal 1.2.5** - Continue initiative to improve case processing timeliness at the regional and headquarters levels.

## Results

- FY 2003** Reviewed adjudicatory regulations to determine where case processing could be streamlined; final regulations published in *Federal Register* on September 18, 2003; added a FY 2004 goal to continue this initiative.
- FY 2004** Completed a draft outline of HQ case processing procedures (i.e., a comprehensive electronic HQ Handbook similar to the AJ Handbook) as a reference, briefing and orientation document with completion scheduled for FY 2005; reviewed comments received on the Board's interim streamlining regulations and drafted separate regulations to conform with the proposed DHS regulations published on 2/20/04; began tracking select cases to be automatically refiled and began recording hearings on compact digital (CD) media to improve timeliness and efficiency; established a uniform procedure for processing incomplete appeals.
- FY 2005** Submitted draft changes to MSPB regulations (5 C.F.R. Part 1210) to the Board for approval; continued to monitor DoD's progress on its regulations to prepare for any necessary updates to MSPB regulations; began developing and implementing changes to internal automated case and document management systems to ensure we are ready to receive and manage those cases in accordance with new regulations; continued to share best practices for case processing among the regions and encourage video conference hearings to improve efficiency; successfully hosted the first Special Panel in 13 years during which the MSPB Chairman, EEOC Chair and Chairman of the Special Panel heard and decided a significant case; drafted revised paper and electronic appeal form; conducted internal evaluation of the petition for review process and made changes to streamline and improve the timeliness of processing appeals at headquarters.
- FY 2006** Awaiting resolution of pending litigation before continuing work on MSPB regulations for DHS and DoD appeals; submitted streamlined MSPB regulations in 5 C.F.R. Part 1201 to the Senior Staff for comment, implemented six automated acknowledgement/jurisdiction orders, began sending automatic emails to regional directors and chief AJs as well as to AJs when a decision on a PFR has been reached, and continued sharing best practices and increasing the use of video conferencing in the regions; began expansion of e-scanning to all regional and field offices based on success of e-scanning pilot (perf. Goal 1.5.1).

This performance goal was **Met**. The FY 2006 results under the control of MSPB were in line with targets. MSPB will continue to use various methods to expedite and streamline appeals in FY 2007.

## Targets

- FY 2006** Prepare and issue interim and final MSPB regulations for DHS and DoD appeals in response to the issuance of final regulations; continue to assess internal MSPB procedures and other means to streamline and expedite appeals.
- FY 2007** Continue to assess MSPB internal procedures and other means to streamline and expedite appeals.



**Objective 3: Continue alternative dispute resolution (ADR) procedures in MSPB proceedings at both the regional office and Board headquarters levels**

**Performance Goal 1.3.1** - Maintain rate of settlement of initial appeals that are not dismissed at 50% or higher.

<b>Results</b>		<b>Targets</b>	
<b>FY 2003</b>	54 %	<b>FY 2006</b>	50 % or higher
<b>FY 2004</b>	53 %	<b>FY 2007</b>	50 % or higher
<b>FY 2005</b>	55 %		
<b>FY 2006</b>	58 %		

This performance goal was **Exceeded**. The result was 16% greater than the target. However, because of the need to provide the option for settlement balanced with the need to adjudicate cases on the merits, the FY 2007 targets remains at 50% or higher.

**Performance Goal 1.3.2** - Maintain rate of settlement of cases selected for the PFR Settlement Program at 35% or higher.

<b>Results</b>		<b>Targets</b>	
<b>FY 2003</b>	44 %	<b>FY 2006</b>	35 % or higher
<b>FY 2004</b>	37 %	<b>FY 2007</b>	35 % or higher
<b>FY 2005</b>	47 %		
<b>FY 2006</b>	38 %		

This performance goal was **Met**. The result was 9% greater than the target value. Due to the large variability in results in previous years, the FY 2007 target remains 35% or higher.

### Objective 3: (continued)

**Performance Goal 1.3.3** - Continue Mediation Appeals Program (MAP) to provide successful alternative dispute resolution services to parties for resolving appeals.

#### Results

- FY 2003** Trained 15 mediators; 50% of completed co-mediations resulted in settlement of the appeal; responsibility for MAP transferred to Regional Directors of Atlanta RO and Central RO; initial evaluation of MAP completed.
- FY 2004** Made the MAP permanent and developed final procedures, notices and orders; assigned the large number of trained mediators in the Washington area in a cost-effective way; trained additional mediators; expanded the program to the Northeastern Region; successfully mediated a total of 23 cases.
- FY 2005** Expanded MAP to all regional and field offices; completed MAP training in all field and regional offices; developed a mediation pamphlet to accompany the Acknowledgement Order in approximately half of the new appeals; began updating instructions, processing guidelines, and selection criteria for new mediators; worked to incorporate standard MAP forms into HotDocs; received 105 cases for MAP of which 83 mediations were completed—two and one half times more than were completed in 2004—8 mediations were cancelled, and 40 of the 83 cases were settled for a success rate of 48%.
- FY 2006** Received 112 new mediation cases in FY 2006. 109 cases were mediated with a success rate of 45% at the conclusion of mediation and a success rate of 61% when cases that settled following return to the adjudication process were included; added new mediators from the regions and all mediators attended a day long training session; application of MAP to the personnel systems in DHS and DoD is on hold pending resolution of court cases regarding the appeals portions of these new systems.

This performance goal was **Exceeded**. The number of appeals mediated in FY 2006 was 31% greater than the number mediated in FY 2005, and three times higher than the target increase of 10%; the success rate following mediation was within 10% of the target, and exceeded the target when cases that settled following return to the adjudication process were included in the calculations. To emphasize the importance of resolving cases using a variety of dispute resolution methods, the FY 2007 target remains a 5-10% increase in the number of cases mediated, with a 50% success rate.

#### Targets

- FY 2006** Continue successful use of the MAP to increase the number of appeals mediated 5 - 10% over the number mediated in FY 2005 with a success rate of 50% or higher; determine how best to apply the program in a variety of different personnel systems.
- FY 2007** A 5-10% increase in the number of cases mediated over the number mediated in FY 2006, with a 50% success rate.

**Objective 4: Hold increase in average case processing cost to no more than the percentage increase in operating costs, adjusted for the change in the number of decisions issued**

**Performance Goal 1.4.1** - Hold increase in overall average case processing cost to no more than the percentage increase in operating costs, adjusted for the changes in the number of decisions issued.

**Results**

**FY 2003**      \$2,731 (Adjusted)  
**FY 2004**      \$2,701 (Adjusted)  
**FY 2005**      \$2,793 (Adjusted)  
**FY 2006**      \$2,830 (Adjusted)

**Targets**

**FY 2006**      \$2,793 adjusted for the changes in the number of decisions issued; assess various cost measures and benchmarks that permit costs to be managed prospectively throughout the year.  
**FY 2007**      TBD based on FY 2006 results.

This performance goal was **Met**. The result met the target value. In addition, discussed various options for cost factors and decided current measure is adequate as it removes effects due to inflation, change in workload and one-time expenses.

**Objective 5: Implement an integrated, streamlined electronic case processing system that allows appellants and agencies to file and receive documents electronically**

**Performance Goal 1.5.1** - Develop integrated electronic case processing system that offers electronic access to customers as required by the Government Paperwork Elimination Act (GPEA) and streamlines internal case processing in accordance with MSPB's long-term Strategic IT Plan.

**Results**

- FY 2003** Signed new fixed-price contract for completion of Law Manager; developed and launched e-Appeal; published electronic filing regulations in *Federal Register* to meet GPEA deadline of October 21, 2003.
- FY 2004** Successfully implemented the new case management system (CMS/LM which uses Law Manager software) in February; tracking of Law Manager improvement projects is ongoing; about 1000 appeals were submitted using procedures established in phase I of e-Appeal; e-Appeal Phase II, including additional filings by parties and electronic publishing of MSPB orders and decisions through electronic distribution directly to the parties, was implemented in September.
- FY 2005** Continued to improve our electronic case processing (CMS/LM) and e-Appeal systems including minimizing manual data entry, eliminating steps between e-Appeal and LM, and developing specifications for additional modules in e-Appeal to enable e-filing identification and to meet new DHS deadlines; implemented "My Cases," an electronic case file process allowing Board members to take electronic case documents on travel for review and decision issuance; established the e-Appeal Phase III pilot project to improve handling of e-filing attachments and expand methods for collecting documents electronically through e-faxing and scanning; surveyed users of the document management system (DMS) and recommended operational changes to improve efficiency.
- FY 2006** Upgraded or enhanced the case processing system (CMS/LM) and document creation systems (HotDocs) to enhance performance and stability, improve document assembly using case management data, and prepare for potential changes associated with DHS and DoD systems; completed improvements such as linked tables of contents for e-filed pleadings, elimination of e-filing ID numbers, ability of agency representatives to enter their appearance online, and implemented Quick Case – an easy-to-use interface for accessing and searching case data; began pilot program to electronically distribute Acknowledgement Orders to pilot agencies (OPM, TSA, USPS) and expanded it to all regional and field offices; successfully completed the e-scan pilot for appeals filed in paper form and began expanding it to all regional and field offices.

This performance goal was **Met**. FY 2006 accomplishments were in line with targets. The target for FY 2007 will include completion of the pilot program and continued enhancements to all electronic case processing systems.

**Targets**

- FY 2006** Continue to enhance electronic case processing system; streamline the process of electronic document submission (e.g., large agency files) to improve efficiency; establish a pilot project with a select group of agencies for submitting agency appeal documents in electronic form.
- FY 2007** Continue to improve internal efficiency of electronic case processing systems procedures; complete pilot for submitting agency appeal documents in electronic form and implement enhancements to e-Appeal.

## **Objective 6: Obtain customer input regarding the adjudicatory process**

**Performance Goal 1.6.1** - Continue to evaluate and implement, as appropriate, suggestions received from customer surveys and informal feedback regarding the adjudicatory process.

### **Results**

- FY 2003** ORO and regional/field office staff received and discussed feedback from outreach events, Federal Executive Boards, Small Agency Council, and bar organizations; practitioners made presentations and responded to questions at legal conference; “best practices” session held at legal conference; ORO continued developing “best practices” guidance.
- FY 2004** Received many, mostly favorable comments regarding the e-Appeal system implemented in October 2003; developed and electronically administered a survey of agency representatives in the adjudicatory process with a response rate of 49%; analyzed survey data and provided recommendations in a final report; began implementing suggestions as appropriate; began plans to expand such surveys to other adjudicatory customers and to collect data on the settlement process.
- FY 2005** Significant progress was made toward implementing procedures for internal and external participants to provide feedback on the outcomes and processes for initial appeals and settlements; continued to receive routine feedback from customers directly, during outreach events and from e-Appeal customers through the automated feedback system within e-Appeal.
- FY 2006** Continued to seek and report feedback from adjudication customers gathered from outreach events, and gathered feedback from a practitioners forum conducted by MSPB and attended by over 200 representatives from agencies, unions and the private bar; presented in 6 different sessions at the Federal Dispute Resolution Conference; began data collection and completed interim progress report including preliminary analyses for the study of initial appeals and settlements.

This performance goal was **Met**. The FY 2006 results were in line with the targets. In FY 2007, the internal study of initial appeals and settlements will continue along with other efforts to gather customer feedback on our adjudication program.

### **Targets**

- FY 2006** Continue to implement procedures to gather routine customer feedback from adjudicatory customers and implement customer suggestions for improvement, as appropriate; complete an internal study of initial appeals and settlements.
- FY 2007** Continue to gather routine customer feedback and implement suggestions and recommendations based on findings, as appropriate; adjust focus of feedback questions, as appropriate, to gain insight into issues as they develop; implement recommendations, as appropriate, from the study of initial appeals and settlements.

## Merit Systems Studies Performance

### Summary

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

### Objectives

1. Assess and support effective and efficient merit systems and human capital management laws, regulations and policies and provide information for improvements and corrections to policymakers.
2. Support effective and efficient implementation and practice of human capital management laws, regulations and policies that ensure the workforce is managed under the merit system and free from prohibited personnel practices.

### Resources

	FY 2006	FY 2007 (requested)
<b>\$ (000)</b>	\$1,721	\$1,786
<b>% Resources</b>	5	5

### Selected Results

#### *Significant Recommendations*

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

#### *Select recent studies (beginning with most recent)*

- Navigating the Probationary Period After *VanWersch* and *McCormick*
- Internal Study of Initial Appeals and Settlements: Project Update and Preliminary Findings (internal)
- Reforming Federal Hiring: Beyond Faster and Cheaper
- Proceedings from the Practice of Merit: A Symposium
- Contracting Officer Representatives: Managing the Government's Technical Experts to Achieve Positive Contract Outcomes
- Designing an Effective Pay for Performance Compensation System
- The FY 2005 Performance and Accountability Report
- Merit Systems Protection Board Annual Report FY 2005
- Reference Checking in Federal Hiring: Making the Call
- Building a High-Quality Workforce: The Federal Career Intern Program
- Probationary Period: A Critical Assessment Opportunity
- Internal Review: The PFR Process
- Managing Federal Recruitment: Issues, Insights, and Illustrations
- Identifying Talent through Technology: Automated Hiring Systems in Federal Agencies
- What's on the Minds of Federal Human Capital Stakeholders?

## Performance Goals and Results

**Objective 1: Assess and support effective and efficient merit systems and human capital management laws, regulations and policies and provide information for improvements and corrections to policymakers**

**Performance Goal 2.1.1** - Evaluate the impact of studies, newsletters and other products through feedback from stakeholder surveys, tracking use of recommendations or references in studies, policy papers, professional literature, legislation and the media.

### Results

- FY 2003** Received numerous references to and favorable reviews of reports; OPE staff made several invited presentations; vacancy announcement study used in testimony before Congress; QuickHire requested permission to reprint report on vacancy announcements at their expense; MSPB reports contributed to enactment of legislation allowing agencies to use category rating instead of “rule of three.”
- FY 2004** Conducted a customer satisfaction survey of stakeholders of the Board’s merit systems studies and newsletters with results indicating that respondents continue to hold publications in high regard; continued to track the impact of studies on human resources management and merit systems policies and on the practice of merit in the workplace; reviewed possible measures of impact and identified several measures to be pilot tested.
- FY 2005** Reviewed alternative measures of impact of studies and began pilot test using customer survey card inserts in reports and began review of current vacancy announcements to assess the impact of Vacancy Announcement report.
- FY 2006** Used customer feedback survey cards in hard copy reports and an online version for web-based users to help assess usefulness and impact of studies; continued review of vacancy announcements including projected cost impacts; continuing to collect information about use of MSPB study findings and recommendations as reports are referenced in policy papers, professional literature, legislation and the media.

This performance goal was **Met**. We continue to collect information about the impact of studies and reports and to refine our methods for collecting this data. In FY 2007, MSPB will continue to track and evaluate mechanisms for measuring the impact of studies and newsletters.

### Targets

- FY 2006** Evaluate the impact of studies with measures such as understandability, intent to apply recommendations, degree to which study provided new information or informed the debate, and efficiency or cost savings of recommendations.
- FY 2007** Continue to track and evaluate mechanisms for measuring the impact of studies and newsletters.

## Objective 1: (continued)

**Performance Goal 2.1.2** - Conduct studies of merit systems and human resources management matters in the Federal Government and issue reports of findings and recommendations for action, where appropriate.

### Results

- FY 2003** Conducted merit systems studies, issued 3 reports and 3 editions of newsletter; developed comprehensive research agenda; conducted less intensive studies on various topics; made presentations to the Department of Homeland Security HR design team; established regular transmissions from OPM's Central Personnel Data File (CPDF); strengthened collaboration with other research organizations.
- FY 2004** Reviewed and adjusted research agenda; completed 6 reports on topics such as what is on the minds of Federal HR stakeholders, automated staffing, recruitment, the FY 2003 Annual Report, the Board's regional and field office staffing, and the studies customer satisfaction survey; also published the MSPB Strategic Plan for FY 2004 - FY 2009 and the PAR for FY 2003; 3 other study reports are under review; released 4 newsletter issues including one celebrating the Board's first 25 years; continued to formalize collaborative relationships with other research organizations.
- FY 2005** Published 2 internal reports on the PFR process and HR customer satisfaction, and 4 external reports including the FY 2004 Annual Report and reports on the probationary period, the Federal career intern program, and reference checks; published the PAR for FY 2004 within the new 45 day timeline; completed 2 other merit systems reports that were in final review at the end of the fiscal year; published 4 issues of the newsletter; increased focus on internal Board and adjudication issues by completing important studies of the PFR process and HR customer satisfaction and by making significant progress on an internal study of the initial appeals and settlements processes.
- FY 2006** Published 8 reports and 4 editions of the newsletter. Report topics included: designing effective pay-for-performance compensation systems, managing contracting officer representatives to achieve positive contract outcomes, reforming Federal hiring, the symposium on the practice of merit, the affect of *VanWersch* and *McCormick* on the probationary period, study of initial appeals and settlements (internal report), the MSPB FY 2005 Annual Report and the MSPB FY 2005 Performance and Accountability Report. In addition, we completed reports on the 2005 Merit Principles Survey (MPS), baseline data for DHS, baseline data for DoD and a draft of the MSPB Strategic Plan for FY 2007 – FY 2012.

This performance goal was **Exceeded**. MPSB published 8 reports, 33% more than the target level, and 4 editions of the newsletter. Three additional merit systems study reports were completed and are under review, and MSPB drafted a new strategic plan for FY 2007 - 2012. The number of reports published each year varies considerably. Therefore, the FY 2007 target will remain 6 reports and 4 editions of the newsletter.

### Targets

- FY 2006** Conduct studies, publish 6 reports and 4 issues of the newsletter; continue to focus on studies of internal Board and adjudication issues to help the Board meet the challenges of the new personnel systems.
- FY 2007** Conduct studies; publish 6 reports and 4 issues of the newsletter.

**Objective 1:** (continued)

**Performance Goal 2.1.3** - Periodically review the actions of OPM and other agencies with authority to develop human resources regulations and policies to assess the impact of those actions on merit systems and human capital management.

**Results**

- FY 2003** N/A (new goal in FY 2004)
- FY 2004** Consulted with the DHS and OPM concerning the development of new employee appeal system regulations for DHS and provided formal comments on the initial regulations issued by DHS; participated in the DoD policy and guidance committee resulting in different draft implementation plans for the DoD Personnel Systems; consulted with DoD and OPM on the design of DoD's new appeals system, with consultation expected to continue in FY 2005; identified quantitative and qualitative information about program operation in DHS and DoD to be used to assess the effect of revised civil service authorities and policies at a future time.
- FY 2005** Participated in consultations regarding proposed DHS and DoD regulations; monitored developments on DHS final regulations and DoD proposed regulations; collected relevant information so the Board will be prepared to assess the impact of the new regulations and policies.
- FY 2006** Conducted and published the proceedings from a symposium entitled "The Practice of Merit: A Symposium" which featured presentations from several agencies that are exempt from traditional Title 5 laws on how they practice merit in hiring, promoting and retaining their employees; analyzed data from the MPS 2005 and the CPDF and completed reports assessing baseline attitudes about merit practices and principles held by employees in DHS and DoD prior to implementation of their new systems; conducted focus groups and interviews to support the ongoing study of Fair and Equitable Treatment and to gain input on the next research agenda; developed databases for DHS and DoD personnel systems using data from the MPS 2005 and the CPDF.

This performance goal was **Met**. FY 2006 accomplishments were in line with the target. In FY 2007, we will continue assessment of new merit systems and publish reports as appropriate.

**Targets**

- FY 2006** Continue assessment of new merit systems regulations; analyze data from the Civilian Personnel Data File (CPDF) and from our own Merit Principles Survey; conduct other assessments such as focus groups, interviews, symposiums, and like interventions; develop database for DHS and DoD personnel systems.
- FY 2007** Continue assessment of new merit systems regulations; publish reports, as appropriate, to be counted under performance goal 2.1.2.

## Objective 1: (Continued)

**Performance Goal 2.1.4** - Ensure that reports of studies are made widely available, particularly to target audiences, and disseminate findings through various means such as personal appearances, personal contacts, publication of articles by OPE staff, and collaboration with other research organizations to increase impact of studies.

### Results

- FY 2003** Continued outreach targeted to FEBs and associations of managers; 30 formal presentations made to groups representing a wide range of stakeholders; worked with OCB to redesign Studies page on MSPB website; increased the number of organizations and news services that include links to MSPB website on their websites.
- FY 2004** Continued outreach efforts for our merit system studies and reports targeted to management groups; made more than 25 presentations to a variety of groups ranging from Federal Executive Boards (FEBs) to union conferences to SES level audiences at department level; continued to improve the studies section of the MSPB website; added members of the Personnel Testing Council to the mailing lists for studies and newsletters; recorded more than 200,000 downloads of MSPB reports and newsletters from the website.
- FY 2005** Met with civil service officials in Ireland, Canada and Thailand—the latter resulting in the establishment of a Thai MSPB; hosted visitors from Thailand, Japan, China, Belgium and Vietnam; presented at conferences in Ireland and Hungary; served on the United Nations expert working group on public sector performance; co-sponsored a symposium on pay-for-performance with GAO, OPM and NAPA; made more than 24 presentations on study results to groups of managers and Federal Executives; recorded over 200,000 downloads of reports and newsletters from our website and made over 1750 outreach contacts.
- FY 2006** Continued to enhanced MSPB's reputation and expand our sphere of influence by participating in professional conferences such as the IPMA-HR Federal Section Conference and the Annual meeting of the Society for Public Administration (ASPA), collaborating with the National Association of Schools of Public Affairs and Administration (NASPAA), delivering presentations to diverse groups such as the Hispanic Employment Managers Conference, Blacks in Government annual conference, EEOC's Annual meeting of Civil Rights Directors and the National Association of Hispanic Federal Executives, and working with minority communities in support of our Fair and Equitable Treatment study; used the media to expand coverage of reports including an appearance on WTOP radio show to discuss and answer questions about reports on the probationary period, FCIP and reference checking; expanded outreach to management groups including those listed above, the Coalition for Effective Change, the Council of Former Federal Executives, and to the Federal Executive Boards and HR officials in Albuquerque, San Francisco, Chicago, Philadelphia, Oklahoma City and Denver; continued electronic distribution of reports recording over 100,000 downloads of reports and newsletter from our website. In addition, we participated in numerous international exchanges with civil service officials from the Ukraine, Thailand, Vietnam, Kosovo, Canada, Japan, and China and served on the United States review team for the second round evaluation of the United States by the Council of Europe's GRECO (Group of States Against Corruption).

This performance goal was **Exceeded**. MSPB completed a large number of outreach events which included Federal employees, managers and senior officials in Washington and throughout the United States, and international exchanges with officials from at least seven countries. MSPB will continue to focus its outreach efforts on managers and field organizations.

## **Targets**

**FY 2006** Continue to enhance the MSPB reputation and therefore the impact of the study findings; utilize the press and other media in a more formal sense to expand coverage of MSPB study products; continue organized outreach efforts focused on managers and field organizations such as the Federal Executive Boards; continue efforts to share reports and newsletters electronically; participate in professional meetings and conferences.

**FY 2007** Continue organized outreach efforts focused on managers and field organizations such as the Federal Executive Boards; continue efforts to share reports and newsletters electronically; participate in professional meetings and conferences.

**Objective 2: Support effective, efficient implementation and practice of human capital management laws, regulations, and policies that ensure the workforce is managed under the merit system and free from prohibited personnel practices**

**Performance Goal 2.2.1** - Conduct periodic Merit Principles Surveys, including questions intended to determine whether agencies adhere to the merit system principles and the extent to which prohibited personnel practices occur in the workplace, and report findings.

**Results**

- FY 2003** Began work on the next Merit Principles Survey (MPS), to be conducted electronically using web-based technology; finalized contract to conduct the web-based survey; postponed conducting survey and analyzing and evaluating results until FY 2004.
- FY 2004** Completed preparations for the next MPS, however administration of the survey was delayed until at least the first quarter of FY 2005 to avoid overlap with OPM's Human Capital Survey; fully coordinated survey issues with OPM who agreed to assist in the capture of email addresses for our survey sample.
- FY 2005** Successfully completed largest and first web-based MPS distributed to 80,000 employees; used this automated capability to refine questions and provide agency CHCOs the option to use the MPS to meet their FY 2005 statutory survey requirement; similar options were built into OPM's implementing guidance for the survey requirement.
- FY 2006** Completed three reports currently under review using data from the 2005 MPS including a baseline report on DHS and a baseline report on DoD; collected CPDF data on DHS and DoD to monitor the impact of personnel changes; collaborated with the Senior Executive Association (SEA) on the annual survey requirement followed by SEA introducing legislation which included a requirement to use the MSPB MPS in alternate years to the OPM Human Capital Survey; began planning a survey to assess the practice of merit and prohibited practices related to equitable treatment.

This performance goal was **Met**. Completion of three reports using MPS data, continued monitoring DHS and DoD, and continued assessment of the practice of merit are in line with the target. In FY 2007, MSPB will continue to assess the practice of merit with emphasis on administering an MPS to assist agencies in meeting the annual survey requirement.

**Targets**

- FY 2006** Analyze and report findings from the FY 2005 Merit Principles Survey; begin further data collection within DHS and DoD to monitor the impact of personnel changes; continue to assess the practice of merit and prohibited personnel practices.
- FY 2007** Continue to assess the practice of merit and prohibited personnel practices in agencies; work with OPM and agencies to assist agencies in meeting the statutory requirement for annual employee survey through a new MPS to be administered in FY 2007.

**Objective 2:** (continued)

**Performance Goal 2.2.2** - Conduct studies of one or more agency alternative personnel management systems or processes and their impact on human capital management, merit principles, and prohibited personnel practices.

**Results**

- FY 2003** N/A (new goal in FY 2004)
- FY 2004** Collected quantitative and qualitative baseline information on the DHS and DoD (or the predecessor organizations) including 2002 OPM Human Capital Survey data, our 1996 and 2000 MPS data, and CPDF data; developed several questions to be included in the FY 2005 and future merit principle surveys to capture employee attitudes before and after system implementation; scheduled FY 2005 MPS to capture data prior to implementation.
- FY 2005** Collected information on alternative human resources systems from CPDF and the 2005 MPS; collected information about other public management systems including state merit systems and other Federal level systems to contrast and compare with ongoing changes in Federal Executive agency human resources management policies.
- FY 2006** Completed reports that are currently under review using CPDF and MPS data on the baseline attitudes of employees prior to implementation of the DHS and DoD personnel systems; conducted and published the proceedings from a symposium on the practice of merit which included presentations from OPM, DoD, Veteran's Affairs, State and the intelligence community, and other agencies with exemptions from the traditional procedures in Title 5 on how they practice merit in hiring, promoting and retaining their employees; and conducted focus groups to support the study on fair and equitable treatment in the workplace.

This performance goal was **Exceeded**. Reports on both the DoD and DHS alternative personnel systems, combined with the symposium presentations from OPM and several additional agencies with alternative personnel systems, provided information on how to support merit in the context of a wide variety of personnel management systems. In FY 2007, MPSB will continue to assess the impact and practice of merit in traditional and alternative systems.

**Targets**

- FY 2006** Assess and report initial findings on the alternative personnel systems used in DHS and/or DoD and their impact on merit (reports counted under goal 2.1.2); collect additional data through varied alternate sources such as focus groups and work in collaboration with DHS, DoD and OPM to analyze findings.
- FY 2007** Continue to assess and report findings as appropriate on the alternative personnel systems used in DHS, DoD or other agencies and their impact on merit (reports counted under goal 2.1.2).

## Management Support Performance

### Summary

**Strategic Goal 3:** To strategically manage MSPB's human capital and strengthen its internal systems and processes to support a continually improving, highly effective and efficient organization

### Objectives

1. Attract, develop, and retain the diverse and highly motivated workforce needed to effectively and efficiently accomplish the MSPB mission.
2. Leverage human resources strategies, policies and services for optimal individual and organizational performance.
3. Implement effective workforce analysis and planning to meet evolving mission needs and technological advances.
4. Maintain electronic access to and dissemination of MSPB information, explore application of Governmentwide e-Government initiatives to MSPB operations, and ensure compliance with statutory e-Government requirements.
5. Maintain information security sufficient to safeguard agency information and assets from compromise and to ensure the highest possible availability of information services to customers.

### Resources

	<b>FY 2006</b>	<b>FY 2007 (requested)</b>
<b>\$ (000)</b>	\$3,884	\$3,444
<b>% Resources</b>	10	9

## Performance Goals and Results

**Performance Goal 3.1.1** - Strengthen employee and management development programs and increase opportunities for MSPB employees.

### Results

- FY 2003** Core and advanced curriculums were developed for paralegals; collaborated with NAPA on study of training for supervisors and managers; updated IDPs to reflect current training needs.
- FY 2004** Developed and taught a course to MSPB paralegal employees; provided training in accordance with employee IDPs from a variety of organizations; provided developmental details to the Acting Chairman and Member offices for 4 employees; provided management training to several employees from a variety of agency offices; continued informal mentoring of employees within offices and proposed a formal mentoring policy as part of a talent investment program.
- FY 2005** Launched MSPB Senior Management Fellows Program (SMFP) targeted to GS-14 and GS-15 employees—a talent investment program designed to expand our efforts to develop and retain critical skills; provided developmental assignments and details to various Board offices for several attorneys; explored alternatives for SES candidate development programs and developed competency-based succession management plan for the agency and provided it to senior staff for comment; incorporated full supervisory responsibilities into CAJ position; successfully conducted the largest MSPB legal conference, attended by 165 MSPB employees, that included legal and paralegal training, updates on DHS and DoD personnel changes, and a presentation by the Comptroller General of the United States.
- FY 2006** Continued to discuss the advantages of an automated database of employees skills and development needs and what data elements need to be captured; drafted an Employee Handbook/Orientation Binder that is being reviewed by senior staff; determined that current employee training and development resources are adequate; successfully conducted 2 ½ day orientation/training program for 25 new AJs and other recently hired Board attorneys; began using alternative ways to publish training opportunities including email distribution of small agency, OPM and vendor provided training information; identified by Partnership for Public Service (PPS) as one of the Best Places to Work in Government and added a banner to all vacancy announcements to publicize this designation; monitored the progress, developmental details and completion of OPM courses of 4 senior management fellows program participants; selected site and continued logistical planning for the 2007 legal conference. Also conducted the second annual MSPB University program, an information exchange program designed to encourage interaction and knowledge sharing between and within MSPB employees.

This performance goal was **Met**. Results were in line with the FY 2006 target. The FY 2007 target will focus on leadership development and the 2007 legal conference.

## **Targets**

- FY 2006** Develop automated database of employee skills and development needs; develop an employee orientation program; assess type and adequacy of resources for administering employee training and development to support mission requirements and succession planning; develop and implement a training program for new administrative judges; assess alternative ways to publish employee training and development opportunities; identify and publicize incentives or features of employment to attract applicants and maintain employees; mentor and monitor progress of participants in the Senior Management Fellows Program and provide assistance as needed; begin planning for next MSPB legal conference.
- FY 2007** Develop and implement a more formal employee development program; identify additional candidates for MSPB Senior Management Fellows Program; conduct the 2007 legal conference.

**Objective 2: Leverage human resources strategies, policies and services to result in optimum individual and organizational performance**

**Performance Goal 3.2.1** - Leverage use of technology to support human resources management programs.

**Results**

- FY 2003** N/A (new goal in FY 2004)
- FY 2004** Began development of automated assessment tools to use in filling administrative judge and senior merit systems analyst positions; provided individual managers informal guidance on position management and classification through one-on-one sessions; enhanced the MSPB intraWeb to provide connection from work and home and more links to internal MSPB operational systems and external sources of HR and employee service information; "Frequently asked questions" regarding the MSPB reorganization and employee relocations were posted on the intraWeb making them readily available to employees.
- FY 2005** Used automated assessment systems to assist in filling analyst positions for merit systems studies and are evaluating the experience with the system for expansion to other vacancies; made the automated retirement calculator available through the HR website; increased the use of NFC database to identify indicators for tracking workforce trends, support the MSPB's Human Capital Plan and workforce planning, and track SES salaries and awards; conducted automated HR customer service survey to assess current customer satisfaction and determine areas for improvement.
- FY 2006** Explored options available through OPM shared service centers compared to the services provided currently by USDA – APHIS including visits by APHIS staff to MSPB to discuss improved services; obtained and reviewed test data for the electronic Official Personnel Folders (e-OPF) provided under interagency agreement with USDA/NFC; contracted for access to EHRI data and use of analytic tools, continued using the APHIS automated candidate application system for some MSPB vacancies.

This performance goal was **Met**. The FY 2006 results aligned with the target. The target for FY 2007 will be to implement e-OPF.

**Targets**

- FY 2006** Explore OPM's Line of Business (LOB) initiative for shared service centers for HR transactional work; pursue conversion of paper OPFs to electronic version (e-OPF); assess OPM's business intelligence tool and workforce analysis system for use at MSPB.
- FY 2007** Implement e-OPF initiative.

**Objective 2:** (Continued)

**Performance Goal 3.2.2 - Enhance quality of human resources customer service.**

**Results**

<b>FY 2003</b>	N/A (new goal in FY 2004)
<b>FY 2004</b>	Conducted site visits to counsel affected employees on retirement and relocation options at 2 offices closed because of regional reorganization; conducted periodic meetings with MSPB managers and identified classifying and filling of jobs as high priority.
<b>FY 2005</b>	Made improvements to the HR webpage; drafted customer service responsiveness standards and a customer service comment card for the webpage; administered an automated HR customer service survey to internal MSPB HR customers, and obtained MSPB results from the OPM Human Capital Survey; began assessing results from these surveys to inform future improvements in HR services.
<b>FY 2006</b>	Published internal newsletter to highlight HR services and points of contact in response to customer satisfaction survey and increased use of the automated applicant system used by APHIS; addressed responsiveness standard with APHIS staff and requested data on program timelines; reviewed HR servicing contract and met with new APHIS HR servicing specialist about potential enhancements to improve customer service; surveyed Senior Staff on HR performance and discussed what topics require more information with employees.

This performance goal was **Met**. The results were in line with the FY 2006 target. In FY 2007, MSPB will focus on improving customer service measures.

**Targets**

<b>FY 2006</b>	Implement recommendations to improve customer service from the FY 2005 HR customer survey; explore alternative sourcing of HR services (goal 3.3.2) to improve customer satisfaction; use additional customer surveys or other forms of feedback to assess and improve services to employees and managers as necessary.
<b>FY 2007</b>	Continue to assess and improve HR customer service as necessary; develop standard metrics and performance measures for HR customer service.

## Objective 2: (continued)

**Performance Goal 3.2.3** - Revise human resources policies and agency organization and structure as appropriate to align with evolving mission requirements.

### Results

<b>FY 2003</b>	N/A (new goal in FY 2004)
<b>FY 2004</b>	Developed and proposed human resources policies for initiatives including category ranking, student loan repayment, mentoring, Veteran's preference and EEO; drafted and submitted to the Chairman an employee handbook on standards of conduct, grievance procedures and ethics; revised and submitted the SES performance management system to OPM for approval; sought and received additional HR flexibilities on VERA and VSIP; successfully reorganized the regional office structure including closure of 2 field offices with no involuntary separations; studied regional office structure and recommended changes.
<b>FY 2005</b>	Drafted initial strategic human capital plan and began reviewing the plan based on results from our surveys; updated, approved and implemented policies on Veteran's preference, category rating and compensatory time for travel; completing second year under provisional certification of our SES appraisal system; reviewed and adjusted position sensitivity and security clearance designations to prepare for classified DHS and DoD cases; implemented recommendations from the field structure study to enhance CAJ positions; realigned HR functions with FAM.
<b>FY 2006</b>	Approved and posted the Board's new table of penalties, implemented new policy for Recruitment, Relocation and Retention and worked with OPM to review security and suitability program to determine where role clarification is required; updated SES Performance Management System and received provisional certification from OPM, and determined that sufficient progress has been made on the strategic human capital plan at this time; shifted and clarified EEO responsibilities so that both EEO and HR functions can be handled more effectively and efficiently, and coordinated HR work to reduce duplication between program offices, FAM-HR and APHIS; continued updating policies and procedures and eliminating those that are obsolete; continued review of delegations handbook by senior managers; and prepared for transfer of the MAP program to headquarters which was effective the first day of FY 2007.

This performance goal was **Met**. The accomplishments for FY 2006 were in line with the targets. In FY 2007, we will continue to improve HR and assess measures of HR performance.

### Targets

<b>FY 2006</b>	Continue to develop and implement human resources flexibilities and policies to maintain and improve HR and organizational effectiveness and efficiency; partner with senior staff to assess and redefine HR priorities and strategic goals and finalize the strategic human capital plan; identify HR program areas/functions where roles and responsibilities need to be clarified to avoid duplication of work with other Board offices; identify and eliminate existing policies and procedures that add no value, and pursue initiatives that add flexibility and value; review HR portions of the delegations handbook.
<b>FY 2007</b>	Evaluate delegation of approval authorities to ensure they are delegated to the lowest practical level to provide managers greater authorities and flexibilities in managing the workforce; develop standard metrics and measures for HR performance; identify and address HR functions or programs needing improvements.

**Objective 3: Implement effective workforce analysis and planning to meet evolving mission needs and technological advances**

**Performance Goal 3.3.1** - Develop agency-wide recruitment strategies to ensure MSPB hires from a variety of sources to ensure a diverse, highly qualified workforce.

**Results**

- FY 2003** Conducted lateral transfers resulting in movement of AJs between field locations and movement of employees in headquarters; conducted job analyses of and created structured interviews for AJ positions; began exploring use of automated systems for recruitment, including application and rating processes.
- FY 2004** Identified sources to expand candidate pools and targeted recruitment at these sources for attorney, paralegal and information technology positions at headquarters and in the field; targeted recruiting efforts continue for vacancies as they occur.
- FY 2005** Developed and coordinated policies for the potential use of recruitment, retention and relocation incentives; ensured that all vacancies are recruited from all sources and targeted to additional minority educational institutions.
- FY 2006** Targeted advertising of senior research analyst vacancy beyond USAJOBS including a wide variety of minority educational institutions; used the “Featured Jobs” component of USAJOBS to market MSPB as an employer; advertised MSPB as one of the “Best Places to Work in Government” in all vacancy announcements; searched USAJOBS and Monster.com resume databases for prospective applicants.

This performance goal was **Met**. The FY 2006 results were in line with the target. In FY 2007, we will focus our recruiting strategies on mission-critical occupations, diversity and leadership.

**Targets**

- FY 2006** Target specific sources of recruitment, such as universities, to maintain and improve diversity and obtain skills to meet the evolving needs of the agency.
- FY 2007** Assess historical recruitment and hiring trends and anticipated hiring needs to develop recruitment plans focusing on mission-critical occupations, diversity and leadership needs.

**Objective 3:** (Continued)

**Performance Goal 3.3.2** - Analyze alternative sources for accomplishing the agency's work.

**Results**

- FY 2003** N/A (new goal in FY 2004)
- FY 2004** Identified future HR skills needed including assistance in classifying and filling positions—identification of further skills needed will depend on the final design of new appeals systems in DHS, DoD and other organizations; initiated efforts to find alternative sources for HR services; continued to coordinate sourcing decisions with MSPB's strategic human capital needs.
- FY 2005** Continued updating workforce planning documents in conjunction with our work on the strategic human capital plan (Goal 3.2.3); continued to explore alternative sources and methods for accomplishing the agency's work by reviewing HR program practices and needs and requesting one additional agency HR position; used intra-agency work groups for several policy and technology projects.
- FY 2006** Discussed changes to APHIS HR servicing contract, decisions are pending; continued to monitor OPM's initiative for HR shared services centers and continued to improve current HR services where necessary; began working with new APHIS HR specialist to identify ways to increase efficiency, and contracted for employee relations operational services.

This performance goal was **Met**. The FY 2006 results were in line with the targets. In FY 2007, MSPB will focus on long-term planning for HR services.

**Targets**

- FY 2006** Review and update the current HR services contract; assess the status and timeline of OPM's initiative on shared HR service centers and the impact on MSPB's transactional HR work; identify alternatives to how work is performed to increase efficiency.
- FY 2007** Continue exploring methods and opportunities to achieve greater efficiency and effectiveness of HR services; develop a long term plan for future HR services and service providers.

**Objective 4: Maintain electronic access to and dissemination of MSPB information, explore application of Governmentwide e-Government initiatives to MSPB operations, and ensure compliance with statutory e-Government requirements**

**Performance Goal 3.4.1** - Assess and enhance information resources and technology capabilities, services, and systems, as necessary and appropriate, to maintain and improve effective, efficient access to and dissemination of MSPB information, network performance and reliability, and IRM customer satisfaction.

**Results**

- FY 2003** Completed and implemented redesigned MSPB website; began distributing all decisions issued by Board electronically; determined that with use of MSPB staff only, adding additional pre-1994 decisions to website will have to continue over the next 2 years, as staffing allows.
- FY 2004** Updated the website to reflect new Board member designations and agency reorganizations, add new MSPB publications, and support e-Appeal phase II; continued to work with the Government Printing Office (GPO) to implement web-based on-line survey capabilities; developed and implemented the IT workforce plan in compliance with the e-Government Act using a mixture of Government and contractor resources to ensure MSPB has the requisite IT skills to meet requirements.
- FY 2005** Improved and updated information available on the website to include adding precedential decisions for CY 2002 and CY 1994 that contain West (MSPR) citations; increased electronic responses to document requests; continued reviewing e-Government initiatives and implemented the Gov-Trip e-Travel system; formed MSPB IT users group as part of the plan to comply with the e-Government Act; shared information about MSPB e-Government systems (e-Appeal, Law Manager and DMS) with other agencies.
- FY 2006** Upgraded MSPB's Wide Area Network, clustered or relocated servers to improve reliability and expand capacity, implemented Microsoft Active Directory, upgraded Document Management System to Hummingbird DM 5.0, deployed EvDO wireless broadband access cards to regional and field offices, distributed new blackberry devices and USB drives, deployed Citirix GoToMeeting to provide web training to MSPB staff, and installed SPSS software and deployed automated surveys to support research studies; inventoried and began migration of MSPB documents into a consolidated, searchable document repository, posted and profiled all MSPB decisions back to 1998 and all applicable Federal Circuit and Supreme Court decisions; implemented the new MSPB Portal (intranet), enhanced and updated MSPB internet website search capabilities and public affairs and contact us pages, also implemented FOIA Requesters Service Center per Executive Order 13392; continued assessing IRM customer satisfaction during monthly users groups and, implemented ticket tracking software c.Support to improve IRM customer service levels and implemented the IRM service level agreements.

This performance goal was **Met**. In FY 2006, MSPB continued to upgrade and improve the efficiency, effectiveness and capacity of our network; improved the availability and accessibility of information; launched a new intranet portal and updated our internet, which included meeting the requirements to provide FOIA services; and continued to focus on improving customer satisfaction. In FY 2007, MSPB will continue to improve its information systems in support of its adjudication and studies missions.

## **Targets**

**FY 2006** Consider technology enhancements to improve MSPB's network performance and reliability, remote access capability, and processing efficiency; begin consolidating MSPB document repositories; improve access to MSPB documents through enhancements to and improvements in the content and usability of MSPB internet and intranet websites; assess IRM customer satisfaction and implement recommendations as appropriate; implement IRM service level agreement.

**FY 2007** Continue to assess and improve MSPB network performance and reliability; continue consolidation of MSPB document repositories; continue to improve internet and intranet; continue to assess IRM customer satisfaction and implement changes, as appropriate.

**Objective 5: Maintain information security sufficient to safeguard agency information and assets from compromise and to ensure the highest possible availability of information services to customers**

**Performance Goal 3.5.1** - Make improvements in the information technology security program and comply with the Federal Information Security Management Act (FISMA) of 2002.

**Results**

- FY 2003** Completed all information security initiatives in accordance with FY 2003 Plan of Action & Milestones submitted to OMB—except for background investigations being conducted by OPM and cancellation of 1 item; independent auditor conducted information security review and completed IG portion of 2003 FISMA Report; filed FISMA Report with OMB and Congress; trained all staff on security awareness.
- FY 2004** Ensured CMS/LM and e-Appeal systems were certified and accredited for adherence to security guidelines; updated the IT security plan, program and manuals to include several security improvements as well as the new case management and e-Appeal systems; updated the Critical Infrastructure Plan and New Employee Computer Guide; developed an IT training plan including security training; provided FISMA security awareness training to all IT staff and pertinent agency officials; completed annual FISMA audit revealing no material weaknesses and sent report to OMB on October 6, 2004.
- FY 2005** Provided security awareness training to all staff; based on enhancements to electronic case processing, our annual independent IT security audit, and the FISMA process, took several actions to improve our security program and IT infrastructure security including completing e-Authentication Risk Assessment, conducting external penetration test of network, deploying Windows service pack 2 to all workstations, and installing new centralized antivirus server.
- FY 2006** Deployed Windows XP Service Pack 2 to workstations and continued installing security patches on servers, updating virus definition files and configuring SPAM filtering software, acquired data encryption software, completed independent 3<sup>rd</sup> party security audit and updated IRM Contingency Plan and Computer Security Plan; completed Annual Security Awareness Training for all MSPB staff; submitted annual FISMA report and quarterly POA&Ms (Plan of Action and Milestones) reports to OMB; submitted IPV6 transition checklist, implementation plan and planning inventory to OMB. Published 5 C.F.R. Part 1216 concerning production and disclosure of official information or records, began process to update the appeal form to include the last four digits of the appellant's SSN to improve case processing and protect privacy of information, and met the requirements to establish a FOIA service center per E.O. 13392.

This performance goal was **Met**. FY 2006 results included improvements in information security procedures, compliance with all FISMA requirements, progress on preparations for conversion to IPV6, updates to the appeal form and establishing a FOIA service center. In FY 2007, MSPB will continue to maintain and improve information security and its preparations for IPV6.

## **Targets**

- FY 2006** Continue to enhance the Board's information security program to prevent data tampering, disruption of critical operations, fraud and disclosure of sensitive information; plan for implementation of Internet Protocol version 6 (IPv6).
- FY 2007** Continue to enhance the Board's information security program to prevent data tampering, disruption of critical operations, fraud and disclosure of sensitive information; continue to plan for and begin implementation of Internet Protocol version 6 (IPv6), as appropriate.



## Financial Accountability Report

### Message from the Chief Financial Officer

I am pleased to present the U.S. Merit Systems Protection Board's (MSPB) financial statements for fiscal year 2006. Once again, we are proud of our accomplishment in receiving an unqualified opinion on our financial status from the independent auditor. Since June 2002, we have worked with the Department of the Treasury Bureau of the Public Debt (BPD) in Parkersburg, West Virginia, which has been designated by the Office of Management and Budget as a Center of Excellence. BPD is responsible for handling our administrative payments and preparing our financial statements. Through its franchise operation, BPD has provided us with timely and complete reports to satisfy our day-to-day operating needs as well as the reporting requirements for Congress, our auditors, and other external reviewing organizations.

This working relationship 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 the President's Management Agenda initiative to increase the use of e-government applications.

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

We will continue to work on improving our financial management performance during the coming years.



Charles Roche  
Chief Financial Officer

November 15, 2006

## Letter to the Auditor on Management Controls



# U.S. MERIT SYSTEMS PROTECTION BOARD

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

Phone: (202) 653-6772, ext. 1119; Fax: (202) 653-7821; E-Mail: [roche@mspb.gov](mailto:roche@mspb.gov)

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Director

October 27, 2006

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

Dear Mr. Brown:

This letter is in connection with your audit of the U.S. Merit Systems Protection Board's Principal Statements (also referred to as "financial statements") as of September 30, 2006 and for the year then ended for the purposes of (1) expressing an opinion as to whether the Principal Statements are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America, and (2) reporting whether the agency's financial management systems substantially comply with Federal financial management systems requirements, applicable Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level as of September 30, 2006.

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

We confirm, to the best of our knowledge and belief, that the following representations made to you during your audit are as of the date of your auditor's report, and pertain to the periods covered by the financial statements. These representations update the representations we provided in conjunction with your audit of the financial statements as of and for the year ended September 30, 2005.

1. We are responsible for the fair presentation of the Principal Statements and Required Supplementary Stewardship Information in conformity with accounting principles generally accepted in the United States of America.

2. The financial statements are fairly presented in conformity with accounting principles generally accepted in the United States of America.
3. We have made available to you all
  - a. financial records and related data,
  - b. where applicable, minutes of the meetings of the U.S. Merit Systems Protection Board or summaries of actions of recent meetings for which minutes have not been prepared, and
  - c. communications from the Office of Management and Budget (OMB) concerning noncompliance with or deficiencies in financial reporting practices.
4. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements or disclosed in the notes to the financial statements.
5. The U.S. Merit Systems Protection Board has satisfactory title to all owned assets, including stewardship property, plant, and equipment: such assets have no liens or encumbrances, nor have any assets been pledged.
6. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
7. Guarantees under which the U.S. Merit Systems Protection Board is contingently liable have been properly reported or disclosed.
8. Related-party transactions and related receivables or payables, including assessments, loans, transfers, and guarantees have been appropriately recorded and disclosed.
9. All intra-entity transactions and activities have been appropriately identified and eliminated for financial reporting purposes, unless otherwise noted. All intra-governmental transactions and balances have been appropriately recorded, reported, and disclosed. We have reconciled intra-governmental transactions and balances with the appropriate trading partners for the four fiduciary transactions identified in Treasury's *Intra-governmental Fiduciary Transactions Accounting Guide*, and other intra-governmental asset, liability and revenue amounts as required by OMB Bulletin 01-09, *Form and Content of Agency Financial Statements* as amended.
10. There are no known;
  - a. violations or possible violations of laws and regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency,

- b. unasserted claims or assessments that are probable of assertion and must be disclosed, that have not been disclosed, or
  - c. material liabilities or gain or loss contingencies that are required to be accrued or disclosed, that have not been disclosed.
11. Management acknowledges its responsibility for the design and implementation of programs and controls to prevent and detect fraud. We confirm that management has no:
- a. Knowledge of any fraud or suspected fraud affecting the organization involving management, employees who have significant roles in internal control, and others, where the fraud could have a material effect on the financial statements.
  - b. Knowledge of any allegations of fraud or suspected fraud affecting the organization received in communications from employees, former employees, analysts, regulators, short-sellers, or others.
12. Pursuant to the Federal Managers' Financial Integrity Act, we have assessed the effectiveness of the U.S. Merit Systems Protection Board's internal control in achieving the following objectives:
- a. Reliability of financial reporting – transactions are properly recorded, processed, and summarized to permit the preparation of the Principle Statements and Required Supplementary Stewardship Information in accordance with accounting standards generally accepted in the United States of America, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition;
  - b. Compliance with applicable laws and regulations – transactions are executed in accordance with: (i) laws governing the use of budget authority and other laws and regulations that could have a direct and material effect on the financial statements, and (ii) any other laws, regulations, and government-wide policies identified by the Office of Management and Budget (OMB) in Appendix C of OMB's Audit Bulletin; and
  - c. Reliability of performance reporting – transactions and other data that support reported performance measures are properly recorded, processed, and summarized to permit the preparation of performance information in accordance with criteria stated by management.
13. We are responsible for implementing and maintaining financial management systems that comply substantially with Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger (SGL) at the transaction level.

14. We have assessed the financial management systems to determine whether they comply substantially with these Federal management systems requirements. Our assessment was based on guidance issued by OMB.
15. The financial management systems complied substantially with Federal financial management systems requirements, applicable Federal accounting standards, and the SGL at the transaction level as of September 30, 2006.
16. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
17. We are responsible for the U.S. Merit Systems Protection Board's compliance with applicable laws and regulations.
18. We have identified and disclosed to you all laws and regulations that have a direct and material effect on the determination of financial statement amounts.
19. No events have occurred subsequent to the date of the statement of financial position that would require adjustment to, or disclosure in, the financial statements.
20. No material events or transactions have occurred subsequent to September 30, 2006 that have not been properly recorded in the financial statements and required supplementary stewardship information or disclosed in the notes thereto.



Charles Roche  
Director, Financial and Administrative Management



BROWN & COMPANY CPAs, PLLC

Independent Auditor's Report on the Financial Statements

**INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS**

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

We have audited the accompanying consolidated balance sheets of the U.S. Merit Systems Protection Board as of September 30, 2006 and 2005, and the related consolidated statements of net cost and results of operations and changes in net position, and the combined statements of budgetary resources and financing for each of the years ended September 30, 2006 and 2005. These financial statements are the responsibility of the U.S. Merit Systems Protection Board. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 06-03, *Audit Requirements for Federal Financial Statements, as amended*. Those standards and OMB Bulletin No. 06-03 require that we plan and perform the audit to obtain reasonable assurance about whether the principal 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 U.S. Merit Systems Protection Board as of September 30, 2006 and 2005, and its net costs, changes in net position, budgetary resources, and financing for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 27, 2006 on our consideration of the U.S. Merit Systems Protection Board's internal control over financial reporting and a report dated October 27, 2006 on its compliance with laws and regulations. Those reports are an integral part of an audit performed in accordance with U.S. Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The information in Management's Discussion and Analysis and Required Supplementary Information sections is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America or OMB Circular No. A-136, *revised Financial Reporting Requirements*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and, accordingly, express no opinion on it.

Largo, Maryland  
October 27, 2006

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**Audited Financial Statements**

**MERIT SYSTEMS PROTECTION BOARD  
BALANCE SHEET  
As of September 30, 2006 and 2005  
(In Dollars)**

	<u>2006</u>	<u>2005</u>	
<b>Assets (Note 2 &amp; 3):</b>			
Intragovernmental:			
Fund Balance with Treasury (Note 2)	\$ 7,345,253	\$ 7,596,580	
Total Intragovernmental	7,345,253	7,596,580	
Accounts Receivable	983	9,324	
General Property, Plant and Equipment, Net (Note 3)	5,080,930	7,087,637	(a)
Total Assets	\$ 12,427,166	\$ 14,693,541	
<b>Liabilities (Note 5 &amp; 6):</b>			
Intragovernmental (Note 5 & 6):			
Accounts Payable (Note 5)	\$ 283,484	\$ 69,592	(b)
Other (Note 5 & 6)	271,598	314,075	
Total Intragovernmental	555,082	383,667	
Accounts Payable (Note 5)	500,282	645,198	(c)
Other (Note 5 & 6)	3,392,746	3,206,693	
Total Liabilities	\$ 4,448,110	\$ 4,235,558	
<b>Net Position:</b>			
Unexpended Appropriations - Other Funds	\$ 5,280,389	\$ 5,719,828	
Cumulative Results of Operations - Other Funds	2,698,667	4,738,155	
Total Net Position	\$ 7,979,056	\$ 10,457,983	
Total Liabilities and Net Position	\$ 12,427,166	\$ 14,693,541	

The accompanying notes are an integral part of these statements.

**MERIT SYSTEMS PROTECTION BOARD**  
**STATEMENTS OF NET COST**  
For the Years Ended September 30, 2006 and 2005  
(In Dollars)

	<u>2006</u>	<u>2005</u>
<b>Program Costs:</b>		
Adjudication:		
Gross Costs (Note 8)	\$ 35,973,866	\$ 34,855,470
Less: Earned Revenue	2,578,950	2,604,993
Net Program Costs	<u>\$ 33,394,916</u>	<u>\$ 32,250,477</u>
 Management Support:		
Gross Costs (Note 8)	\$ 4,273,581	\$ 3,961,954
Net Program Costs	<u>\$ 4,273,581</u>	<u>\$ 3,961,954</u>
 Merit Systems Studies		
Gross Costs (Note 8)	\$ 1,856,797	\$ 1,693,350
Net Program Costs	<u>\$ 1,856,797</u>	<u>\$ 1,693,350</u>
 Net Cost of Operations	<u>\$ 39,525,294</u>	<u>\$ 37,905,781</u>

The accompanying notes are an integral part of these statements.

**MERIT SYSTEMS PROTECTION BOARD**  
**STATEMENTS OF CHANGES IN NET POSITION**  
For the Years Ended September 30, 2006 and 2005  
(In Dollars)

	2006	2005	
<b>Cumulative Results of Operations:</b>			
Beginning Balances	\$ 4,738,155	\$ 7,114,170	(a)
Beginning Balances, as Adjusted	<u>\$ 4,738,155</u>	<u>\$ 7,114,170</u>	
<b>Budgetary Financing Sources:</b>			
Appropriations Used	\$ 35,347,396	\$ 33,359,304	
<b>Other Financing Sources (Non-Exchange):</b>			
Imputed Financing Sources (Note 7)	<u>2,138,410</u>	<u>2,170,462</u>	
Total Financing Sources	<u>\$ 37,485,806</u>	<u>\$ 35,529,766</u>	
Net Cost of Operations	<u>39,525,294</u>	<u>37,905,781</u>	
Net Changes	<u>\$ (2,039,488)</u>	<u>\$ (2,376,015)</u>	
<b>Cumulative Results of Operations</b>	<u>\$ 2,698,667</u>	<u>\$ 4,738,155</u>	
<b>Unexpended Appropriations:</b>			
Beginning Balances	\$ 5,719,828	\$ 4,817,580	(b)
Beginning Balances, as Adjusted	<u>\$ 5,719,828</u>	<u>\$ 4,817,580</u>	
<b>Budgetary Financing Sources:</b>			
Appropriations Received	\$ 35,600,000	\$ 34,677,000	
Other Adjustments	(692,043)	(415,448)	(c)
Appropriations Used	<u>(35,347,396)</u>	<u>(33,359,304)</u>	
Total Budgetary Financing Sources	<u>\$ (439,439)</u>	<u>\$ 902,248</u>	
Total Unexpended Appropriations	<u>\$ 5,280,389</u>	<u>\$ 5,719,828</u>	
Net Position	<u><u>\$ 7,979,056</u></u>	<u><u>\$ 10,457,983</u></u>	

The accompanying notes are an integral part of these statements.

**MERIT SYSTEMS PROTECTION BOARD**  
**STATEMENTS OF BUDGETARY RESOURCES**  
For the Years Ended September 30, 2006 and 2005  
(In Dollars)

	2006		2005	
<b>Budgetary Resources:</b>				
Unobligated Balance Brought Forward, October 1:	\$ 2,308,406	\$	1,127,238	(a)
Recoveries of Prior Year Unpaid Obligations	273,906		1,285,596	(b)
Budget Authority				
Appropriation	35,600,000		34,677,000	
Spending Authority from Offsetting Collections				
Earned				
Collected	2,578,950		2,604,993	
Permanently Not Available	692,043		415,448	(c)
Total Budgetary Resources	<u>\$ 40,069,219</u>	\$	<u>39,279,379</u>	
<b>Status of Budgetary Resources:</b>				
Obligations Incurred				
Direct	\$ 35,109,552	\$	34,365,980	
Reimbursable	2,578,950		2,604,993	
Unobligated Balance				
Apportioned	205,433		265,455	
Unobligated Balance Not Available	2,175,284		2,042,951	
Total Status of Budgetary Resources	<u>\$ 40,069,219</u>	\$	<u>39,279,379</u>	
<b>Change in Obligated Balance:</b>				
Obligated Balance, Net				
Unpaid Obligations, Brought Forward, October 1	\$ 5,288,175	\$	5,846,248	
Total Unpaid Obligated Balance, Net	5,288,175		5,846,248	
Obligations Incurred Net	37,688,502		36,970,973	
Less: Gross Outlays	37,738,235		36,243,449	
Less: Recoveries of Prior Year Unpaid				
Obligations, Actual	273,906		1,285,596	(b)
Obligated Balance, Net, End of Period				
Unpaid Obligations	4,964,536		5,288,176	
Total, Unpaid Obligated Balance, Net, End of Period	<u>\$ 4,964,536</u>	\$	<u>5,288,176</u>	
<b>Net Outlays:</b>				
Net Outlays:				
Gross Outlays	\$ 37,738,235	\$	36,243,449	
Less: Offsetting Collections	2,578,950		2,604,993	
Net Outlays	<u>\$ 35,159,285</u>	\$	<u>33,638,456</u>	

The accompanying notes are an integral part of these statements.

**MERIT SYSTEMS PROTECTION BOARD**  
**STATEMENTS OF FINANCING**  
For the Years Ended September 30, 2006 and 2005  
(In Dollars)

	2006	2005
<b>Resources Used to Finance Activities:</b>		
Budgetary Resources Obligated		
Obligations Incurred	\$ 37,688,502	\$ 36,970,973
Less: Spending Authority from Offsetting Collections and Recoveries	2,852,856	3,890,589 (a)
Obligations Net of Offsetting Collections and Recoveries	<u>34,835,646</u>	<u>33,080,384</u>
Net Obligations	<u>34,835,646</u>	<u>33,080,384</u>
Other Resources		
Imputed Financing from Costs Absorbed by Others (Note 7)	<u>2,138,410</u>	<u>2,170,462</u>
Net Other Resources Used to Finance Activities	<u>2,138,410</u>	<u>2,170,462</u>
Total Resources Used to Finance Activities	<u>\$ 36,974,056</u>	<u>\$ 35,250,846</u>
<b>Resources Used to Finance Items Not Part of the Net Cost of Operations</b>		
Change in Budgetary Resources Obligated for Goods,		
Services and Benefits Ordered but Not Yet Provided	\$ (511,750)	(278,921) (b)
Resources that Fund Expenses Recognized in Prior Periods	60,404	-
Resources that Finance the Acquisition of Assets	<u>69,000</u>	<u>(229,080) (c)</u>
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	<u>(382,346)</u>	<u>(508,001)</u>
Total Resources Used to Finance the Net Cost of Operations	<u>\$ 37,356,402</u>	<u>\$ 35,758,847</u>
<b>Components of the Net Cost of Operations That Will Not Require or Generate Resources in the Current Period</b>		
Components Requiring or Generating Resources in Future Periods		
Increase in Annual Leave Liability	\$ 84,844	\$ 68,549
Other	-	3,438
Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods	<u>84,844</u>	<u>71,987</u>
Components Not Requiring or Generating Resources:		
Depreciation and Amortization	2,075,707	2,033,904
Other	<u>8,341</u>	<u>41,043</u>
Total Components of Net Cost of Operations that will Not Require or Generate Resources	<u>2,084,048</u>	<u>2,074,947</u>
Total Components of Net Cost of Operations that will Not Require or Generate Resources in the Current Period	<u>\$ 2,168,892</u>	<u>\$ 2,146,934</u>
Net Cost of Operations	<u>\$ 39,525,294</u>	<u>\$ 37,905,781</u>

The accompanying notes are an integral part of these statements.

**MERIT SYSTEMS PROTECTION BOARD**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Fiscal Years Ended September 30, 2006 and 2005**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***A. Basis of Presentation***

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

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

***B. Reporting Entity***

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

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

***C. 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 measures the appropriations and consumption of budget authority and other budgetary resources and facilitates compliance with legal requirements on the use of federal funds.

## **NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

### ***D. Revenues & Other Financing Sources***

Congress enacts annual, multi-year, and no-year appropriations to be used, within statutory limits, for operating and capital expenditures. Appropriations are recognized as a financing source when expended. Appropriations expensed for capitalized property and equipment are recognized as expenses when an asset is consumed in operations.

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

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

### ***E. Taxes***

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

### ***F. Fund Balance with Treasury***

The U.S. Treasury processes cash receipts and disbursements. Funds held at the Treasury are available to pay agency liabilities. MSPB does not maintain cash in commercial bank accounts.

### ***G. Accounts Receivable***

Accounts receivable owed to MSPB include reimbursements from employees and amounts receivable from federal agencies for services provided. An allowance for uncollectible accounts receivable from the public is established when either (1) based upon a review of outstanding accounts and the failure of all collection efforts, management determines that collection is unlikely to occur considering the debtor's ability to pay, or (2) an account for which no allowance has been established is submitted to the Department of the Treasury for collection, which takes place when it becomes 180 days delinquent. Accounts receivable consisted entirely from the public, which were \$983 and \$9,324 as of September 30, 2006 and 2005, respectively.

### ***H. Property, Plant and Equipment (PP&E), Net***

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

## **NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

### ***I. Liabilities***

Liabilities covered by budgetary or other resources are those liabilities for which Congress has appropriated funds or funding is otherwise available to pay amounts due. Liabilities not covered by budgetary or other resources represent amounts owed in excess of available Congressionally appropriated funds or other amounts. The liquidation of liabilities not covered by budgetary or other resources is dependent on future Congressional appropriations or other funding. Intragovernmental liabilities are claims against MSPB by other Federal agencies. Liabilities not covered by budgetary resources on the Balance Sheet are equivalent to amounts reported as Components requiring or generating resources on the Statement of Financing. Additionally, the Government, acting in its sovereign capacity, can abrogate liabilities.

### ***J. Accounts Payable***

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

### ***K. 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. 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.

### ***L. Accrued Workers' Compensation***

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

### ***M. Retirement Plans***

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

## **NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

### ***M. Retirement Plans (continued)***

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

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

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

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

### ***N. Use of Estimates***

Management has made certain estimates and assumptions when reporting assets, liabilities, revenue, and expenses, and in the note disclosures. Actual results could differ from these estimates. Significant estimates include (a) year-end accruals of accounts payable, and (b) accrued workers' compensation.

### ***O. 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 2006 and 2005 to the extent directed by OMB.

## NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### *P. Contingencies*

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

### *Q. Expired Accounts and Cancelled Authority*

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

### *R. Reclassification*

Certain fiscal year 2005 balances have been reclassified, retitled, or combined with other financial statement line items for consistency with current year presentation.

## NOTE 2. FUND BALANCE WITH TREASURY

Fund balance with Treasury account balances as of September 30, 2006 and 2005 were:

	<u>2006</u>	<u>2005</u>
<b>Fund Balances:</b>		
Appropriated Funds	<u>\$ 7,345,253</u>	<u>\$ 7,596,580</u>
<b>Status of Fund Balance with Treasury:</b>		
Unobligated Balance		
Available	\$ 205,433	\$ 265,455
Unavailable	2,175,284	2,042,950
Obligated Balance not yet Disbursed	4,964,536	5,288,175
Total	<u>\$ 7,345,253</u>	<u>\$ 7,596,580</u>

## NOTE 3. GENERAL PROPERTY, PLANT, AND EQUIPMENT

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

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

Construction in Progress consists of Leasehold Improvements.

Schedule of Property, Plant, and Equipment as of September 30, 2005

<u>Description</u>	<u>Acquisition Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Leasehold Improvements	\$ 1,332,563	\$ (628,043)	\$ 704,520
Office Equipment	73,776	(45,188)	28,588
Internal Use Software	<u>9,522,385</u>	<u>(3,167,856)</u>	<u>6,354,529</u>
Totals	<u>\$10,928,724</u>	<u>\$ (3,841,087)</u>	<u>\$ 7,087,637</u>

#### NOTE 4. OPERATING LEASES

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

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

##### Schedule of Future Minimum Lease Payments

2007	\$ 2,260,068
2008	2,326,134
2009	2,394,147
2010	1,748,455
2011	147,482
Thereafter	<u>78,049</u>
Total Future Minimum Lease Payments	<u>\$ 8,954,335</u>

## NOTE 5. LIABILITIES

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

	<u>2006</u>	<u>2005</u>
Intragovernmental		
Accounts Payable	\$ 283,484	\$ 69,592
Other	<u>271,598</u>	<u>314,075</u>
Total Intragovernmental	\$ 555,082	\$ 383,667
Accounts Payable	500,282	645,198
Accrued Funded Payroll	1,054,065	975,856
Payroll Taxes Payable	45,295	22,296
Unfunded Annual Leave	<u>2,293,386</u>	<u>2,208,541</u>
Total Liabilities	<u>\$ 4,448,110</u>	<u>\$ 4,235,558</u>

## NOTE 6. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

The liabilities on MSPB's Balance Sheet as of September 30, 2006 and 2005, include liabilities not covered by budgetary resources, which are liabilities for which congressional action is needed before budgetary resources can be provided. Although future appropriations to fund these liabilities are likely and anticipated, it is not certain that appropriations will be enacted to fund these liabilities. Liabilities not covered by budgetary resources consist of unfunded leave and FECA. Unfunded leave balances are \$2,293,386 and \$2,208,541, and unfunded FECA balances are \$89,859 and \$150,263, as of September 30, 2006 and 2005, respectively.

## NOTE 7. IMPUTED FINANCING SOURCES

MSPB recognizes as imputed financing the amount of accrued pension and post-retirement benefit expenses for current employees. The assets and liabilities associated with such benefits are the responsibility of the administering agency, the Office of Personnel Management (OPM). Total imputed financing sources from OPM were \$2,138,410 and \$2,170,462 for the fiscal years ended September 30, 2006 and 2005, respectively.

**NOTE 8. OPERATING/PROGRAM COSTS**

Cost by major budgetary object classification are as follows:

Major Budgetary Object Classification	2006	2005
Personnel	\$ 24,221,715	\$ 22,868,197
Benefits	7,507,367	7,190,755
Benefits to Former Employees	12,099	(18,664)
Travel	480,126	529,193
Transportation	67,250	224,036
Rents, Communications	3,605,746	3,237,567
Printing and Reproduction	175,628	200,611
Other Services	2,862,082	2,319,524
Supplies and Materials	321,563	222,552
Equipment	2,665,410	3,555,999
Land & Structures	185,214	180,747
Interest and Dividends	44	256
Total Program Costs	\$ 42,104,244	\$ 40,510,773

**NOTE 9. CUSTODIAL ACTIVITY**

MSPB's custodial collection primarily consists of Freedom of Information Act requests. While these collections are considered custodial, they are not primary to the mission of MSPB nor material to the overall financial statements. MSPB's total custodial collections are \$687 and \$1,000 for the fiscal years ended September 30, 2006, and 2005, respectively.

**NOTE 10. BUDGETARY RESOURCE COMPARISONS TO THE BUDGET OF THE UNITED STATES GOVERNMENT**

The 2008 Budget of the United States Government, with the Actual Column completed for fiscal year 2006, has not yet been published as of the date of these financial statements. The Budget is expected to be published and delivered to Congress in early February 2007. The 2007 Budget of the United States Government, with the Actual Column completed for 2005, has been reconciled.

**MERIT SYSTEMS PROTECTION BOARD  
REQUIRED SUPPLEMENTARY INFORMATION  
TRADING PARTNER INFORMATION  
AS OF THE YEAR ENDED SEPTEMBER 30, 2006**

	Trading Partner Code	Assets		Liabilities		
		Fund Balance with Treasury	Total	Accounts Payable	Other	Total
Department. of the Treasury	20	\$ 7,345,253	\$ 7,345,253	\$ -	\$ -	\$ -
Department of Labor	16				89,859	89,859
United States Postal Service	18			500		500
Office of Personnel Management	24		-	-	135,999	135,999
General Services Administration	47		-	282,984	-	282,984
General Fund of the Treasury	99	-	-	-	45,740	45,740
<b>Total</b>		<b><u>\$ 7,345,253</u></b>	<b><u>\$ 7,345,253</u></b>	<b><u>\$ 283,484</u></b>	<b><u>\$ 271,598</u></b>	<b><u>\$ 555,082</u></b>



**BROWN & COMPANY CPAs, PLLC**

## **Independent Auditor's Report on Internal Control over Financial Reporting**

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

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

We have audited the principal statements (hereinafter referred to as "financial statements") of the U.S. Merit Systems Protection Board as of and for the year ended September 30, 2006, and have issued our report thereon dated October 27, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 06-03, *Audit Requirements for Federal Financial Statements*.

In planning and performing our audit, we considered the U.S. Merit Systems Protection Board's (MSPB) internal control over financial reporting by obtaining an understanding of 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. 06-03. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982, such as those controls relevant to ensuring efficient operations. The objective of our audit was not to provide an opinion on internal control and therefore, we do not express an opinion on internal control.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect MSPB's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. 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 material weaknesses as defined above.

In addition, with respect to internal control objective related to the performance measures included in the "Management's Discussion and Analysis," we obtained an understanding of the design of internal controls relating to the existence and completeness assertions and determined whether they have been placed in operation. Our procedures were not designed to provide an opinion on internal control over reported performance measures, and, accordingly, we do not express an opinion on such controls.

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

Largo, Maryland  
October 27, 2006

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BROWN & COMPANY CPAs, PLLC

Independent Auditor's Report on Compliance with Laws and Regulations

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS**

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

We have audited the principal statements (hereinafter referred to as "financial statements") of the U.S. Merit Systems Protection Board as of and for the year ended September 30, 2006, and have issued our report thereon dated October 27, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 06-03, *Audit Requirements for Federal Financial Statements*.

The management of the U.S. Merit Systems Protection Board (MSPB) is responsible for complying with laws and regulations applicable to MSPB. As part of obtaining reasonable assurance about whether 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. 06-03. We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to MSPB.

The results of our tests of compliance disclosed no reportable instances of noncompliance with other laws and regulations discussed in the preceding paragraph that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 06-03.

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 U.S. Merit Systems Protection Board, OMB, and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

Largo, Maryland  
October 27, 2006

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## Appendix A: Abbreviations and Acronyms

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

