



OFFICE OF INSPECTOR GENERAL

Audit Report

2015-MO-B-006

The Board Can Enhance Its Diversity and Inclusion Efforts

March 31, 2015

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
CONSUMER FINANCIAL PROTECTION BUREAU

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Abbreviations

ACS	American Community Survey
Board	Board of Governors of the Federal Reserve System
C.F.R.	<i>Code of Federal Regulations</i>
COSO	Committee of Sponsoring Organizations of the Treadway Commission
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act
EEO	equal employment opportunity
EEOC	U.S. Equal Employment Opportunity Commission
ER	Employee Relations
FY	fiscal year
GAO	U.S. Government Accountability Office
HR	Human Resources
MD-715	<i>Management Directive 715</i>
No FEAR Act	Notification and Federal Employee Antidiscrimination and Retaliation Act of 2002
OD&I	Office of Diversity and Inclusion
OD&L	Organizational Development and Learning
OIG	Office of Inspector General
OMWI	Office of Minority and Women Inclusion
OPM	U.S. Office of Personnel Management
U.S.C.	<i>United States Code</i>



Executive Summary:

The Board Can Enhance Its Diversity and Inclusion Efforts

2015 MO B 006

March 31, 2015

Purpose

The Office of Inspector General conducted this audit in response to a congressional request for information on the Board of Governors of the Federal Reserve System's (Board) activities related to diversity and inclusion. Our objective was to assess the Board's human resources-related operations and other efforts to provide for equal employment opportunities, including equal opportunity for minorities and women to obtain senior management positions, and increase racial, ethnic, and gender diversity in the workforce.

Background

Section 10 of the Federal Reserve Act (12 U.S.C. § 244) grants the Board broad authority and independence over matters of employment. As such, the Board is generally not subject to the personnel provisions of title 5 of the *United States Code*, including those relating to recruiting and hiring, performance management, promotions, and employee satisfaction surveys. However, as part of its employment rules, the Board has adopted equal employment opportunity (EEO) provisions that prohibit employment discrimination, including provisions of the No FEAR Act.

The Dodd-Frank Wall Street Reform and Consumer Protection Act required the Board to establish an Office of Minority and Women Inclusion that is responsible for all agency matters relating to diversity in management.

Findings

The Board has established diversity and inclusion practices that are embedded in its longstanding EEO programs. Recent activities include adopting a more standardized process for recruiting officers, developing a formal agency-wide succession planning program to help identify a diverse pool of candidates for senior management positions, and conducting an agency-wide employee survey.

We identified areas of the Board's diversity and inclusion efforts that can be enhanced. First, the Board can enhance its efforts to track and analyze certain types of workforce data that can be used to identify diversity and inclusion trends. Second, the Office of Diversity and Inclusion can increase its interaction with all Board divisions and provide diversity and inclusion and EEO training on a regular basis. Third, the Board should formalize standards for equal employment opportunity and the racial, ethnic, and gender diversity of the workforce to fully comply with section 342 of the Dodd-Frank Wall Street Reform and Consumer Protection Act. Fourth, the Board can further enhance its diversity and inclusion goals and objectives by finalizing and implementing its diversity strategic plan.

We acknowledge that initiatives and activities that are beyond the scope of our review also contribute to enhancing diversity and inclusion. Therefore, the Board's ability to attract, develop, and retain a diverse and inclusive workforce is affected by other factors not specifically identified in our report.

Recommendations

Our report contains recommendations designed to enhance and promote diversity and inclusion at the Board. In its response to our draft report, the Board concurs with our recommendations and outlines planned, ongoing, and completed activities. The Board has taken steps to improve the collection of applicant demographic data, provide non-EEO statistics, and finalize the diversity and inclusion strategic plan. In addition, the Board plans to enhance certain functions within the Office of Diversity and Inclusion.

Summary of Recommendations, OIG Report No. 2015-MO-B-006

Rec. no.	Report page no.	Recommendation	Responsible office
1	23	Develop and implement an alternative method for collecting the demographic data of economist and research assistant applicants to improve the response rate.	Divisions that recruit economists and research assistants
2	24	Ensure that the demographic data for all internal and external officer applicants are maintained in the Board's centralized applicant database.	Management Division
3	30	Consider conducting annual analyses of the distribution of employee performance ratings to identify whether patterns exist that may indicate unfair or unequal treatment. If the analyses reveal patterns that may indicate unfair or unequal treatment, determine whether any actions are necessary.	Management Division
4	41	Ensure that aggregate non-equal employment opportunity case statistics are provided to all Division Directors and that division-specific statistics are provided to the respective Division Director.	Management Division
5	51	Finalize and implement the Board's diversity and inclusion strategic plan and ensure that <ul style="list-style-type: none"> a. the plan incorporates the agency's overall diversity and inclusion objectives. b. key elements of the plan are included in the Board's 2016–2019 agency strategic plan. 	Office of Diversity and Inclusion
6	52	Formalize the standards the Office of Diversity and Inclusion relies on for equal employment opportunity and the racial, ethnic, and gender diversity of the workforce and the senior management of the agency.	Office of Diversity and Inclusion
7	54	Ensure that No FEAR Act training <ul style="list-style-type: none"> a. is offered on a regular basis. b. is tailored to the Board and includes equal employment opportunity and diversity and inclusion topics in accordance with the Board's <i>No FEAR Act Written Training Plan</i>. c. is evaluated for effectiveness and that any improvements identified are incorporated into the training as needed. d. attendance records are retained. 	Office of Diversity and Inclusion
8	56	Document the roles and responsibilities of the Office of Diversity and Inclusion and distribute them to all Board divisions.	Office of Diversity and Inclusion
9	56	Partner with divisions to cooperatively develop strategies and initiatives that will help advance diversity and inclusion throughout the Board.	Office of Diversity and Inclusion
10	56	Work with divisions to finalize and implement the quarterly reporting tool and establish a schedule to communicate the results for each division to the respective Division Director. The quarterly reporting tool should include diversity and inclusion activities for each division with clear objectives and corresponding measures.	Office of Diversity and Inclusion

Rec. no.	Report page no.	Recommendation	Responsible office
11	57	<p>Strengthen internal controls for reporting <i>Management Directive 715</i> data, to include</p> <ul style="list-style-type: none"> a. documenting the methodology for extracting and filtering the appropriate data. b. verifying the accuracy and completeness of the data in the <i>Management Directive 715</i> report prior to submission. 	Office of Diversity and Inclusion and Management Division



OFFICE OF INSPECTOR GENERAL
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
CONSUMER FINANCIAL PROTECTION BUREAU

March 31, 2015

MEMORANDUM

TO: Distribution List

FROM: Melissa Heist *Melissa Heist*
Associate Inspector General for Audits and Evaluations

SUBJECT: OIG Report No. 2015-MO-B-006: *The Board Can Enhance Its Diversity and Inclusion Efforts*

The Office of Inspector General has completed its final report on the subject audit. We conducted this audit in response to a congressional request for information on the Board of Governors of the Federal Reserve System's (Board) activities related to diversity and inclusion. Our objective was to assess the Board's human resources-related operations and other efforts to provide for equal employment opportunities, including equal opportunity for minorities and women to obtain senior management positions, and increase racial, ethnic, and gender diversity in the workforce.

Our report contains recommendations designed to improve the monitoring and promotion of diversity and inclusion at the Board, as well as strengthen related controls. In the Board's response to our draft report, the Board concurs with our recommendations and indicated progress in addressing the recommendations. We have included the Board's response as appendix I in our report.

We appreciate the cooperation that we received from your offices. In its final form, this report will be added to our public website and will be summarized in our next *Semiannual Report to Congress*. Please contact me if you would like to discuss this report or any related issues.

cc: Michell Clark, Director of the Management Division
Dave Harmon, Chief Human Capital Officer and Deputy Director, Management Division
Sheila Clark, Program Director, Office of Diversity and Inclusion
Lillian Shewmaker, Chief of Administration and Special Projects, Division of Research and Statistics
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Introduction

Objective

The Office of Inspector General (OIG) conducted an audit in response to a March 24, 2014, congressional request for information on the Board of Governors of the Federal Reserve System's (Board) activities related to diversity and inclusion.¹ We received a similar congressional request for information on activities related to diversity and inclusion at the Consumer Financial Protection Bureau, as did the OIGs of five other federal financial regulatory agencies.² We coordinated with the other OIGs to develop a comparable objective and scope to address the congressional requests.

Our resultant objective was to assess the Board's human resources–related functions and other efforts to provide for equal employment opportunities, including equal opportunity for minorities and women to obtain senior management positions, and increase racial, ethnic, and gender diversity in the workforce. To answer our objective, we

- reviewed relevant agency personnel operations, policies, and procedures, (e.g., policies related to performance management and hiring), to determine whether adequate controls are established to prevent and detect bias or discrimination
- analyzed information related to demographic statistics for minority and women employees (e.g., performance management, promotions, and representation at all levels of the agency); informal and formal equal employment opportunity (EEO) complaint statistics; and employee satisfaction survey results to determine whether this information suggests disparities in gender, race/ethnicity, or age
- assessed the Board's efforts to respond to complaints, employee satisfaction survey results, or other potential indications of bias or discrimination and to increase diversity throughout the agency
- evaluated the Office of Minority and Women Inclusion's (OMWI) role and involvement in monitoring the impact of the Board's personnel policies on minorities and women, as well as monitoring the Board's efforts to increase diversity in senior management positions
- identified factors that may impact the Board's ability to increase diversity in senior management positions

1. The congressional request letter is in appendix A.

2. The OIGs that received similar requests are those for the U.S. Department of the Treasury's Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Federal Housing Finance Agency, the National Credit Union Administration, and the U.S. Securities and Exchange Commission.

The scope of our audit included the Board’s human resources–related functions affecting diversity and inclusion from 2011 through 2013.³ We also report on relevant management actions that were undertaken in 2014.

We acknowledge that diversity and inclusion are much broader than the areas covered in our report, and that initiatives and activities that are beyond the scope of our review also contribute to enhancing diversity and inclusion. The U.S. Office of Personnel Management (OPM) defines workforce diversity and inclusion, respectively, as follows:

[Workforce diversity is] a collection of individual attributes that together help agencies pursue organizational objectives efficiently and effectively. These include, but are not limited to, characteristics such as national origin, language, race, color, disability, ethnicity, gender, age, religion, sexual orientation, gender identity, socioeconomic status, veteran status, and family structures. The concept also encompasses differences among people concerning where they are from and where they have lived and their differences of thought and life experiences.⁴

[Inclusion is] a culture that connects each employee to the organization; encourages collaboration, flexibility, and fairness; and leverages diversity throughout the organization so that all individuals are able to participate and contribute to their full potential.⁵

For the purposes of our review, we focused on aspects of diversity and inclusion as they specifically relate to gender, race/ethnicity, and age. These three aspects of diversity were emphasized as being of particular interest in our discussions with congressional staff. The race/ethnicity categories discussed in this report follow those prescribed by the U.S. Equal Employment Opportunity Commission (EEOC) as defined in its *Equal Employment Opportunity Standard Form 100, Rev. January 2006, Employer Information Report EEO-1 Instruction Booklet*. These categories include White (Not Hispanic or Latino), Black or African American (Not Hispanic or Latino), Hispanic or Latino, and Asian (Not Hispanic or Latino), among others.⁶ Details on our scope and methodology are in appendix B.

The U.S. Government Accountability Office (GAO), in its *Diversity Management: Expert-Identified Leading Practices and Agency Examples* report, emphasized that a high-performance organization relies on a dynamic workforce with the requisite talents, multidisciplinary knowledge, and up-to-date skills to ensure that it is equipped to accomplish its mission and

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3. The Board generally operates on a calendar-year basis; however its performance management process is on a fiscal-year basis.
 4. U.S. Office of Personnel Management, *Government-Wide Diversity and Inclusion Strategic Plan 2011*.
 5. U.S. Office of Personnel Management, *Government-Wide Diversity and Inclusion Strategic Plan 2011*.
 6. For the purposes of this report, we grouped the following race/ethnicity categories as *Other* due to the small number of individuals typically represented in each of these categories: (1) Native Hawaiian or Other Pacific Islander (Not Hispanic or Latino), (2) American Indian or Alaska Native (Not Hispanic or Latino), (3) Two or More Races/Ethnicities (Not Hispanic or Latino), and (4) Not Specified (i.e., individuals who chose not to disclose demographic data).

achieve its goals.⁷ Further, the GAO report states that the approach a high-performance organization takes toward its workforce is inclusive and draws on the strengths of employees at all levels and of all backgrounds. Diversity management creates and maintains a positive work environment where the similarities and differences of individuals are valued, so that all can reach their potential and maximize their contributions to an organization's strategic goals and objectives.

Background

The Federal Reserve Act established the Board of Governors of the Federal Reserve System.⁸ The Board is composed of seven Governors appointed by the President of the United States, with the advice and consent of the United States Senate.⁹ The Board's mission is to foster the stability, integrity, and efficiency of the nation's monetary, financial, and payment systems. The Board has 14 divisions and an OIG.

Section 10 of the Federal Reserve Act¹⁰ grants the Board broad authority over matters of employment. Specifically, section 10 states that Board employment will be governed "solely" by the provisions of the Federal Reserve Act and rules and regulations of the Board that are not inconsistent with the act. As such, the Board is generally not subject to the personnel provisions of title 5 of the *United States Code*, including those relating to recruiting and hiring, performance management, promotions, and employee satisfaction surveys. However, as part of its employment rules, the Board has adopted EEO laws that prohibit discrimination against an individual on the basis of race, color, religion, sex, national origin, age, disability, or genetic information, and the Board promotes the full realization of equal employment opportunity through a continuing affirmative program. The Board also prohibits discrimination on the basis of any application, membership, or service in the uniformed services. In addition, as a matter of policy and although it is not required by law, the Board prohibits discrimination in employment on the basis of sexual orientation. The Board's employment rules include the provisions of the Notification and Federal Employee Antidiscrimination and Retaliation Act of 2002 (No FEAR Act) that require agencies to report EEO complaint information and to provide training at least every two years to their employees, including managers, regarding the rights and remedies available under the employment discrimination protection laws.

Guidance and Best Practices Related to Diversity and Inclusion

This section highlights guidance and best practices related to diversity and inclusion, including EEOC management directives, GAO's *Standards for Internal Control in the Federal Government*, and diversity management leading practices.

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7. U.S. Government Accountability Office, *Diversity Management: Expert-Identified Leading Practices and Agency Examples*, GAO-05-90, January 14, 2005.
 8. The Federal Reserve System comprises the Board, the 12 regional Federal Reserve Banks, and the Federal Open Market Committee.
 9. 12 U.S.C. § 241.
 10. 12 U.S.C. § 244.

The EEOC is responsible for enforcing federal laws that prohibit discrimination against a job applicant or an employee because of the person's race/ethnicity, color, religion, sex, national origin, age (40 or older), disability, or genetic information. Federal law also prohibits discrimination against a person because the person complained about discrimination, filed a charge of discrimination, or participated in an employment discrimination investigation or lawsuit. The EEOC provides leadership and guidance to federal agencies on all aspects of the federal government's EEO program. The EEOC ensures federal agency and department compliance with EEOC regulations, provides technical assistance to federal agencies concerning EEO complaint adjudication, monitors and evaluates federal agencies' affirmative employment programs, develops and distributes federal-sector educational materials and conducts training for stakeholders, and adjudicates appeals from administrative decisions made by federal agencies on EEO complaints.

The EEOC's *Management Directive 715* (MD-715) provides federal agencies policy guidance and standards for establishing and maintaining effective EEO programs. The Board follows the requirements of the MD-715 and annually attests to its commitment to equal opportunity in aspects of employment and fostering diversity and inclusion in the workplace.¹¹ The MD-715 provides instructions that require agencies, among other things, to report demographic data on their workforce on an annual basis. The MD-715 also provides guidance on establishing and maintaining effective programs of equal employment. The MD-715 defines the following six essential elements of a model EEO program:

- demonstrated commitment from agency leadership
- integration of equal employment opportunity into the agency's strategic mission
- management and program accountability
- proactive prevention of unlawful discrimination
- efficiency (e.g., efficient, fair, and impartial complaint resolution process)
- responsiveness and legal compliance¹²

Establishing appropriate internal controls helps agencies improve organizational effectiveness and accountability. In the context of diversity and inclusion at the Board, internal controls may assist the agency in preventing and detecting bias or discrimination in its human resources-related functions and in ensuring the accurate reporting of diversity information. GAO's *Standards for Internal Control in the Federal Government* contains internal control standards for federal agencies to follow; these standards incorporate elements of the Committee of Sponsoring Organizations of the Treadway Commission's (COSO) internal control framework. COSO's internal control framework is widely used and recognized as a leading framework for designing, implementing, and evaluating the effectiveness of internal control. Similar controls are also prescribed for the accurate reporting of information. The National Institute of Standards and Technology's Special Publication 800-53, Revision 4, *Security and Privacy Controls for Federal Information Systems and Organizations*, outlines mandatory information security controls for federal information systems, including data output reconciliation and error correction.

GAO has reported leading practices to guide organizations in diversity management. These practices are intended to help agencies create and maintain a positive work environment where

11. In May 2014, the Board published *The EEO Complaint System and How It Works*, which contains Chair Janet Yellen's attestation to the Board's commitment to providing equal employment to all persons.

12. Equal Employment Opportunity Commission, *Management Directive 715*, October 1, 2003.

the similarities and differences of individuals are valued so that all can reach their potential and maximize their contributions to an organization's strategic goals and objectives. GAO issued *Diversity Management: Expert-Identified Leading Practices and Agency Examples* in response to a congressional request to report on the federal government's performance in managing its diverse workforce. In its report, GAO identifies the following nine leading diversity management practices:

Top leadership commitment—A vision of diversity demonstrated and communicated throughout an organization by top-level management.

Diversity as part of an organization's strategic plan—A diversity strategy and plan that are developed and aligned with the organization's strategic plan.

Diversity linked to performance—The understanding that a more diverse and inclusive work environment can yield greater productivity and help improve individual and organizational performance.

Measurement—A set of quantitative and qualitative measures of the impact of various aspects of an overall diversity program.

Accountability—The means to ensure that leaders are responsible for diversity by linking their performance assessment and compensation to the progress of diversity initiatives.

Succession planning—An ongoing, strategic process for identifying and developing a diverse pool of talent for an organization's potential future leaders.

Recruitment—The process of attracting a supply of qualified, diverse applicants for employment.

Employee involvement—The contribution of employees in driving diversity throughout an organization.

Diversity training—Organizational efforts to inform and educate management and staff about diversity.¹³

The GAO report states that the diversity management experts it spoke with or whose publications it reviewed generally agreed that organizations should consider a combination of these nine leading practices when developing and implementing diversity management.

The Board's Workforce

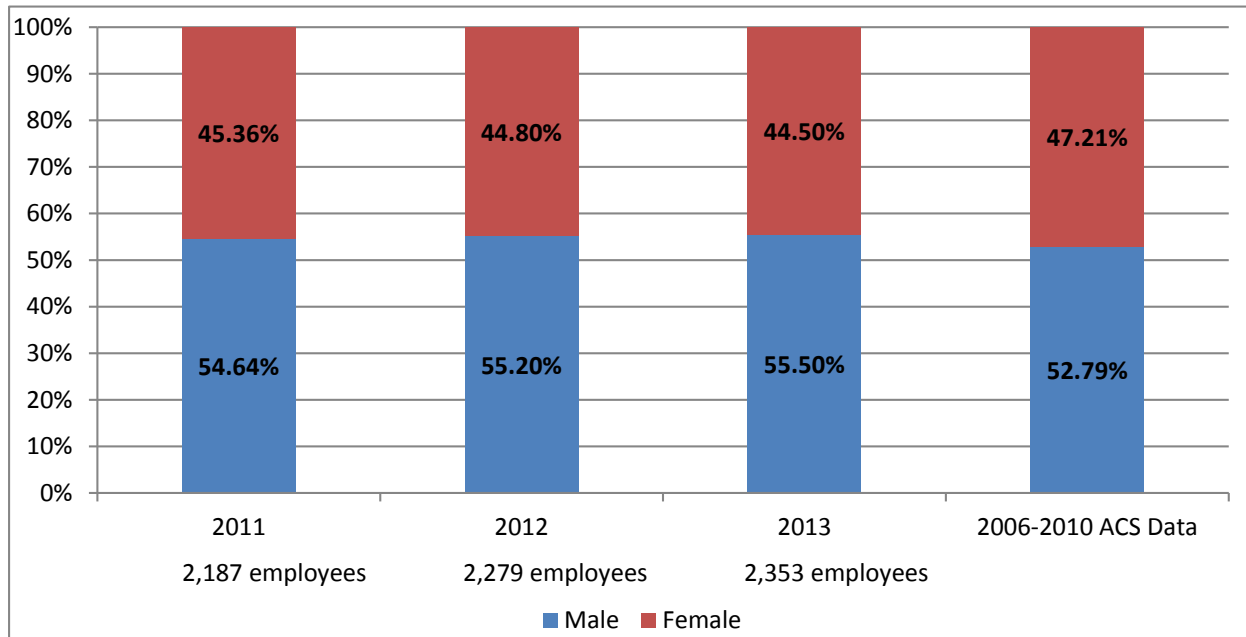
In this section, we provide information about the Board's workforce composition by sex, race/ethnicity, and age. This information provides context for the remainder of the report.

13. U.S. Government Accountability Office, *Diversity Management: Expert-Identified Leading Practices and Agency Examples*, GAO-05-90, January 14, 2005.

Composition of the Workforce

The Board's total workforce was 2,187 in 2011, 2,279 in 2012, and 2,353 in 2013.¹⁴ During this period, as shown in figure 1, female employees accounted for approximately 45 percent of the Board's workforce. According to the U.S. Census Bureau, females accounted for approximately 47 percent of the general workforce, as represented by the most recent five-year American Community Survey (ACS) data.¹⁵

Figure 1: Permanent Board Employees, 2011–2013, and ACS Data,^a by Sex



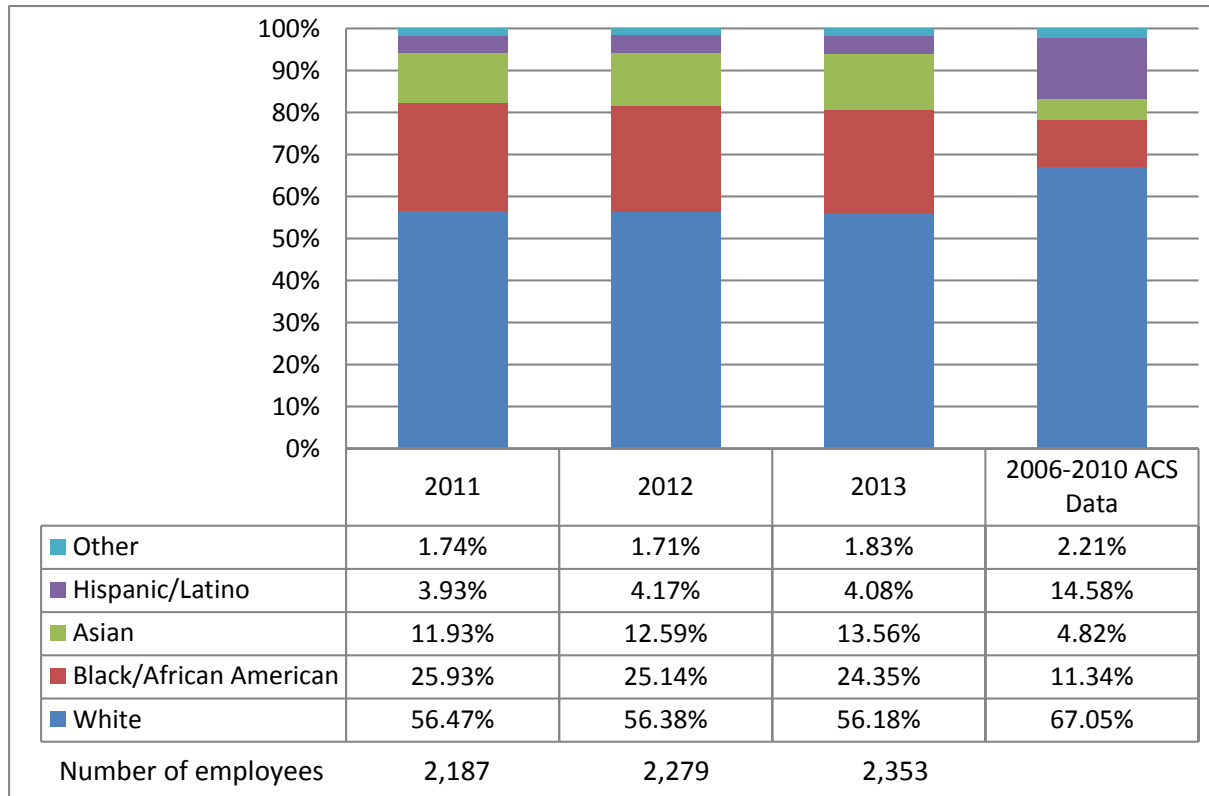
Source: OIG analysis of Board-provided data and the U.S. Census Bureau's ACS data.

^aThese data are compiled through the survey, which randomly samples around 3.5 million addresses and produces statistics for five-year time periods.

14. The OIG was excluded from this audit to maintain its independence. In addition, the total workforce numbers do not include temporary employees or interns.
15. The U.S. Census Bureau entered into a reimbursable agreement with a consortium of four federal agencies—the EEOC, the U.S. Department of Justice, the Office of Federal Contract Compliance Programs at the U.S. Department of Labor, and OPM—to create a custom tabulation identified as the EEO Tabulation 2006–2010 and referred to as the five-year ACS data. The five-year ACS data serve as the primary benchmark for comparing the race, ethnicity, and sex composition of an organization's workforce with that of the analogous external labor market within a specified geography and job category.

The non-White workforce population averaged 44 percent for all three years under review (figure 2). The Board's workforce is more racially diverse than the workforce represented in the ACS data, which reported a 33 percent non-White workforce for 2006–2010.¹⁶

Figure 2: Permanent Board Employees, 2011–2013, and ACS Data,^a by Race/Ethnicity^b



Source: OIG analysis of Board-provided data and the Census Bureau's ACS data.

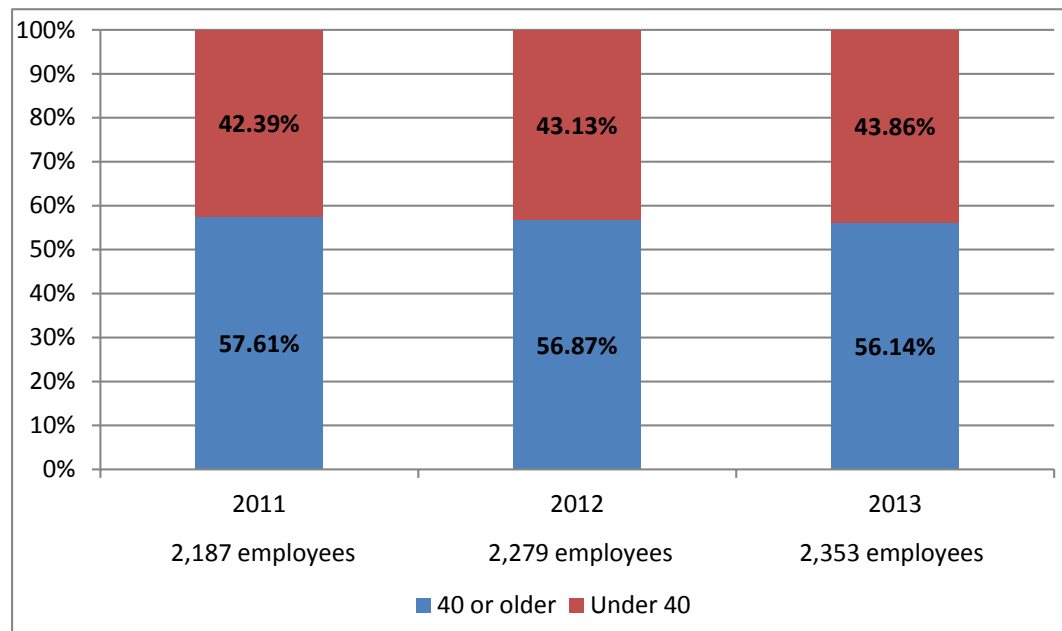
^aThese data are compiled through the survey, which randomly samples around 3.5 million addresses and produces statistics for five-year time periods.

^bOther includes (1) Native Hawaiian or Other Pacific Islander (Not Hispanic or Latino), (2) American Indian or Alaska Native (Not Hispanic or Latino), (3) Two or More Races/Ethnicities (Not Hispanic or Latino), and (4) Not Specified (i.e., individuals who chose not to disclose demographic data).

16. The race/ethnicity categories discussed in this report are the same as those prescribed by the EEOC in its *Equal Employment Opportunity Standard Form 100*, Rev. January 2006, *Employer Information Report EEO-1 Instruction Booklet*.

To assess age diversity, we looked at two age groups: those under 40 years of age and those 40 years of age or older. We noted that employees 40 years of age or older accounted for approximately 56 to 58 percent of the Board’s workforce in 2011, 2012, and 2013 (figure 3). There are no comparable ACS data on age demographics.

Figure 3: Permanent Board Employees, 2011–2013, by Age



Source: OIG analysis of Board-provided data.

Demographics by Pay Grade Category

The Board’s pay structure has 22 pay grades.¹⁷ For wage employees, there are seven pay grades, or WE levels, ranging from 41 (lowest) to 47 (highest). The Board also has 14 professional pay grades, or FR levels, ranging from 16 (lowest) to 29 (highest).¹⁸ For executive-level Board staff (known as official staff or officers), the Board has one pay grade, 00, regardless of position title. For the purpose of our analysis, we grouped the wage, professional, and officer grades into the following three categories:

- senior managers and officers (FR-29 and 00)
- mid-level professionals (FR-26 to FR-28)¹⁹
- all other professional employees and all wage employees (FR-16 to FR-25 and WE-41 to WE-47)

17. The Board’s salary structure does not map to the federal government’s General Schedule pay structure.

18. In January 2014, the Board added the FR-30 pay grade. This pay grade was not included in our analysis. As of March 2015, there were no incumbents at this pay grade.

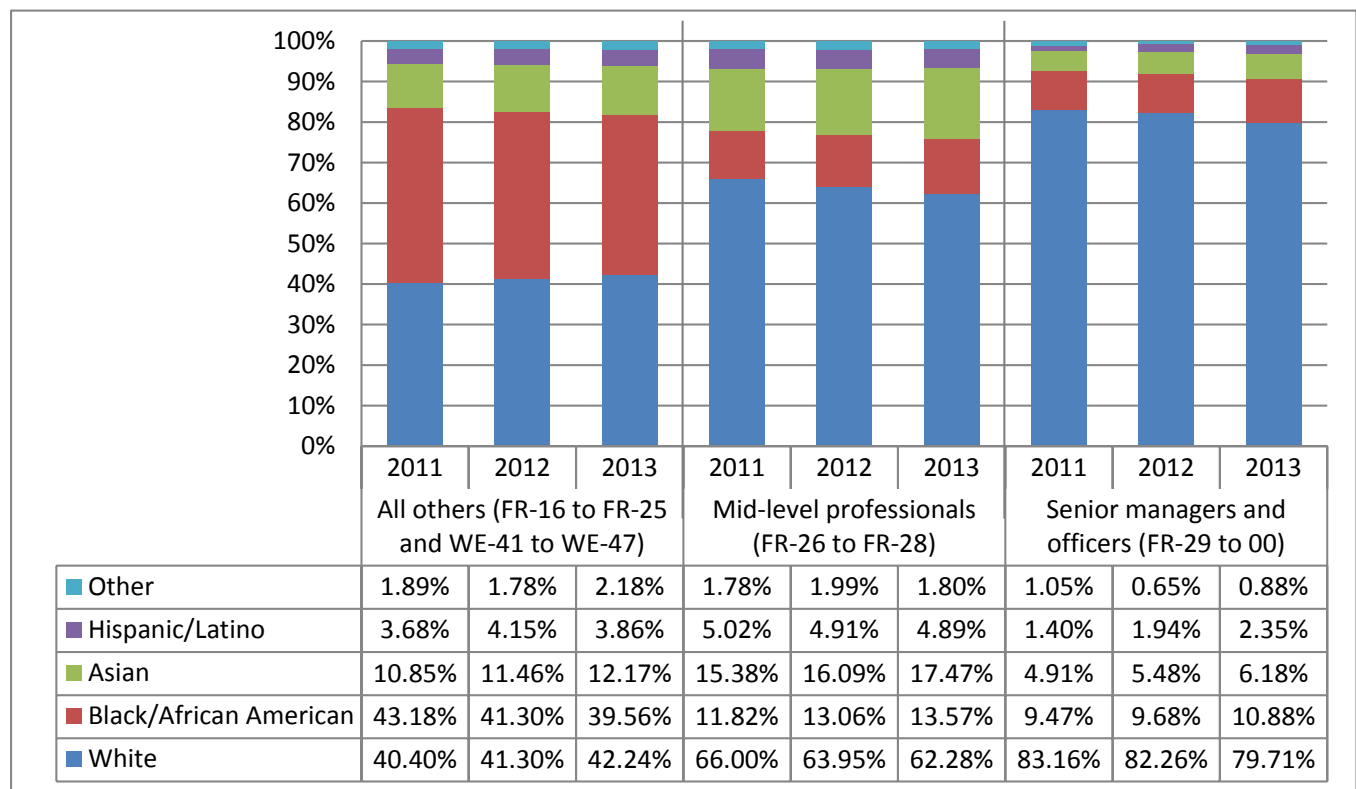
19. *Mid-level professionals* may include supervisors and managers.

Men held more positions than women in each pay grade category. The number of women in the *mid-level professionals* and *senior managers and officers* pay grade categories increased in all three years (appendix C, table C-3).

As illustrated in figure 4, the overall race/ethnicity concentrations within pay grade categories were relatively unchanged from 2011 through 2013. From 2011 through 2013, the Board's workforce was the most diverse in the *all other professional employees and all wage employees* category. During that same period, the workforce was the least diverse in the *senior managers and officers* category.

In each year under review, White employees as a percentage of total employees increased in each successively higher grade category. For example, in 2013, White employees accounted for approximately 42 percent of the *all other professional employees and all wage employees* category, 62 percent of the *mid-level professionals* pay grade category, and 80 percent of the *senior managers and officers* pay grade category. Within the *mid-level professionals* and *senior managers and officers* pay grade categories, the percentage of White employees declined while the percentage of non-White employees increased each year.

Figure 4: Workforce Distribution by Race/Ethnicity^a and Pay Grade Category, 2011–2013



Source: OIG analysis of Board-provided data.

Note: Percentages may not total 100 due to rounding.

^aOther includes (1) Native Hawaiian or Other Pacific Islander (Not Hispanic or Latino), (2) American Indian or Alaska Native (Not Hispanic or Latino), (3) Two or More Races/Ethnicities (Not Hispanic or Latino), and (4) Not Specified (i.e., individuals who chose not to disclose demographic data).

Additional workforce distribution data for permanent employees by pay grade category, race/ethnicity, sex, and age are in appendix C.

Human Resource–Related Offices at the Board

Generally, the Board’s human resources–related functions are performed by certain sections under the Chief Human Capital Officer within the Management Division as well as the Office of Diversity and Inclusion (OD&I), which is within the Office of the Chief Operating Officer.

Human Resources’ Sections in the Management Division

Human Resources’ (HR) mission is “to develop human capital strategies and services that align and support the strategic direction of the Board while creating an environment recognized as a ‘great place to work’ with a high-performing, diverse workforce.” The office includes several sections that provide human resources services: Talent Acquisition, Compensation, Employee Relations (ER), and Organizational Development and Learning (OD&L).

Talent Acquisition

Talent Acquisition is responsible for recruiting and hiring. Although Talent Acquisition is involved with the hiring process for all 14 divisions and the OIG, the section does not recruit for certain specialized positions. These specialized positions are legal assistants, attorneys, senior attorneys, counsels, research assistants, and economists. Board divisions that hire research assistants and economists, as well as some specialized legal positions, conduct their own recruiting and applicant screening for those positions, while Talent Acquisition conducts final processing and onboarding for the selected specialized candidates.

Compensation

Compensation conducts analysis and provides recommendations on salary offers and increases for employees based on their qualifications and market conditions. For the performance management process, Compensation ensures that employees’ performance ratings are accurately recorded and reconciled before annual merit increases are finalized, as these increases are based on the employees’ performance ratings.

Employee Relations

ER provides employee counseling, dispute resolution, and policy assistance, and it also facilitates formal employee relations cases. ER’s responsibilities include, but are not limited to, the following:

- identifying and bringing to management’s attention emerging employee relations issues and trends that may affect employee morale
- gauging employee morale and assessing the quality of human resources programs and services through outreach

- resolving workplace issues by providing consultation and counseling for management and employees
- administering the Board’s grievance and disciplinary actions policies
- collecting employee performance appraisals and managing appeals of employee performance appraisals
- developing and implementing employee relations policies

Organizational Development and Learning

OD&L is responsible for improving the Board’s organizational performance and employees’ productivity through training and development. The section provides the following services to Board employees:

- Assessments—employee and managerial assessments to identify opportunities for growth and expansion
- Career planning—assessments and development of employee skills that add value to the Board
- Consulting—guidance on organizational transitions, strategy creation, skill-gap analysis, team-need analysis, and creative training options
- Training and classes—guidance on training classes as well as the organization of in-house training for Board employees
- Succession planning—guidance to divisions in identifying and developing staff for career advancement
- Employee engagement surveys—management of the newly adopted, agency-wide process aimed at gaining employees’ feedback on the Board’s work environment.²⁰

Office of Diversity and Inclusion

The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) requires federal financial agencies to establish an OMWI to be responsible for all agency matters related to diversity in management, employment, and business activities. The Board established the OD&I in January 2011 to house in one organization its existing EEO function; its diversity and inclusion programs for minorities, women, and other Board employees; and the Dodd-Frank Act OMWI activities related to financial education, supplier diversity, and regulated entities.

The Board’s EEO function follows the regulations set forth in title 12, part 268, of the *Code of Federal Regulations*. These provisions are included in the Board’s policy, program, and procedures for providing equal opportunity to Board employees and applicants for employment. In addition, the Board’s EEO function manages the Board’s EEO complaint process; regulatory reporting, such as that set forth in the MD-715; and EEO training.

20. The Board refers to the employee satisfaction survey as an engagement survey.

In accordance with the Dodd-Frank Act, the Board's OD&I is responsible for the following:

- developing and implementing standards and procedures to ensure, to the maximum extent possible, the fair inclusion and utilization of minorities and women in all activities of the Board
- developing standards for assessing the diversity policies and practices of entities regulated by the Board
- submitting to Congress an annual report regarding actions taken by the Board since the previous report, to include successes achieved and challenges faced by the Board in operating minority and women outreach programs; challenges the Board may face in hiring qualified minority and women employees and contracting with qualified minority-owned and women-owned businesses; and any other information, findings, conclusions, and recommendations for legislative or agency action, as appropriate

The OD&I is also responsible for diversity and inclusion programs that support recruiting and hiring.

Human Resources–Related Functions at the Board

The five human resources–related functions pertaining to diversity and inclusion that are covered in this report and the respective offices with primary or secondary responsibilities for these functions are shown in table 1.

Table 1: Board Offices Responsible for Select Human Resources–Related Functions

Office	Human resources–related functions at the Board				
	Recruiting and hiring	Performance management	Promotions and succession planning	Employee complaints	Employee surveys
Human Resources					
Employee Relations		primary for collecting		primary for non-EEO	primary for exit surveys
Organizational Development and Learning			primary for succession planning		primary for engagement surveys
Talent Acquisition	primary for general professional and wage secondary for officers		secondary for promotions		
Office of Diversity and Inclusion					
Diversity and Inclusion	secondary				
Equal Employment Opportunity				primary for EEO	
All Board divisions					
Divisions	primary for specialized positions and officers	primary for conducting	primary for promotions		

Source: OIG analysis of Board-provided documents and interviews.

The congressional request that initiated our work asked us to examine certain components of the Board’s personnel-related functions with respect to diversity and inclusion. We identified these functions to include recruiting and hiring; performance management; promotions and succession planning; complaints; employee satisfaction surveys; and, more generally, the OD&I’s overall efforts to enhance diversity and inclusion at the Board. Our findings and recommendations related to each of these activities are discussed in the remaining sections of this report.

Recruiting and Hiring

The Board recognizes that a work environment that attracts top talent is essential. We considered the Board's diversity efforts in its recruiting and hiring as part of our work to address the congressional request to examine the Board's overall human resources–related practices.

This section presents information on the Board's recruiting and hiring processes, including the competitive promotion process. Further, we present demographic statistics on recruiting and hiring. Our findings relate to the Board's processes for gathering and analyzing demographic data on applicants for certain specialized positions and officers.

The Board's Processes

The Board has four distinct processes for recruiting and hiring, depending on position type:

1. professional employees (other than professionals with specialized skills) and wage employees
2. specialized professional employees—legal assistants, attorneys, senior attorneys, and counsels
3. specialized professional employees—economists and research assistants
4. officers

The Board's recruiting and hiring processes for each position type are described below. For each recruitment process, Talent Acquisition assists with the final processing and onboarding of candidates selected for employment.

Recruiting and Hiring for Professional Positions (Other Than Professionals With Specialized Skills) and Wage Positions

The Board has established recruitment practices and uses a variety of methods to attract a broad range of candidates, including job boards, social media, and career fairs. In addition, the Board recruits from colleges and universities. The Board's *Vacant-Position Policy* provides guidance on posting vacancies, selecting the most qualified candidates from a pool of internal and external applicants, and promoting employee awareness of available career opportunities.

Talent Acquisition leads the Board's recruitment efforts and participates in recruiting events with entities such as the National Society of Hispanic MBAs, the National Society of Asian MBAs, and the Thurgood Marshall College Fund. Further, the Board recruits interns through (1) colleges and universities, including historically Black colleges and universities; (2) diversity-focused organizations, such as the Hispanic Association of Colleges and Universities, Washington

Internships for Native Students, the Workforce Recruitment Program,²¹ and INROADS,²² and (3) special-interest publications. OD&I staff members accompany Talent Acquisition representatives at certain recruiting events.

The Board generally provides current employees the first opportunity to apply for open positions;²³ however, the Board may simultaneously advertise open positions to external and internal candidates. Applicants are asked to voluntarily provide their sex and race/ethnicity at the time of application. Talent Acquisition reviews the applications of internal and external candidates to determine whether they meet the position's minimum requirements. Talent Acquisition forwards the applications of qualified internal and external candidates to the hiring manager. The hiring manager identifies candidates to be interviewed. Upon selection of a candidate, the hiring manager informs Talent Acquisition, which then conducts reference and education checks and offers a salary. Applicant information for these professional and wage positions is stored in a centralized applicant database.²⁴

Recruiting and Hiring for Specialized Professional Positions—Attorneys

The Legal Division recruits for attorney positions in two ways. For mid-career attorney positions, the division can partner with Talent Acquisition to advertise a vacancy on the Board's public website. In August 2013, Talent Acquisition became involved in recruiting and screening attorney applicants. These applicants are asked to voluntarily provide demographic data at the time of application, and their information is stored in the same centralized applicant database that contains information on other professional and wage position applicants.

For entry-level attorney positions, a Legal Division recruiter recruits second- and third-year students from select law schools, which include schools that have banking law programs. Legal Division applicant information obtained through this process is also stored in the Board's centralized applicant database.

Recruiting and Hiring for Specialized Professional Positions—Economists and Research Assistants

Board divisions that recruit for and hire economists and research assistants have a standard practice for each type of position.²⁵ According to an economics division official, the Board's

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21. The Workforce Recruitment Program is a nationwide recruitment and referral program that connects federal and private-sector employers with highly motivated college students and recent graduates with disabilities.
 22. INROADS is the nation's largest nonprofit source of paid internships for undergraduate students of diverse backgrounds.
 23. Employees may apply after the internal-only posting period ends, but they are then considered as external applicants and are not guaranteed an interview.
 24. Talent Acquisition uses a human resources software application that manages the recruiting and hiring process. Information stored in the software database assists with evaluating candidate qualifications, tracking new hires, and maintaining metrics.
 25. Six Board divisions hire economists and research assistants: Research and Statistics, International Finance, Monetary Affairs, Office of Financial Stability Policy and Research, Banking Supervision and Regulation, and Reserve Bank Operations and Payment Systems.

practice derives from universities' practice of posting relevant materials of those pursuing a PhD in economics on their public website. The Board develops its economist candidate pool in four ways:²⁶

- A representative for the Board's economics divisions downloads the job market materials of those pursuing a PhD in economics (e.g., curriculum vitae and publications) from select university websites, irrespective of whether the individuals have expressed an interest in working for the Board.
- A committee of Board economists contacts faculty members in economics and finance departments at universities in the United States and abroad to request referrals of individuals expected to be in the job market.
- Candidates can send job market materials to an e-mail address specified on the section of the Board's public website that describes economist positions at the Board.
- Candidates can apply through the American Economic Association's Job Openings for Economists listings.

Board divisions that hire economists contact individuals from this resultant candidate pool to offer them an interview at the American Economic Association's annual meeting in January. A subset of those interviewed are invited for additional interviews at the Board. An individual may be extended multiple interviews and offers, and the economics divisions ultimately choose the candidates to whom they will extend an offer of employment. All economist candidate information is stored in the economics divisions' proprietary database,²⁷ which is separate from the Board's centralized applicant database.

Research assistants are recruited twice a year through job fairs and outreach to economics and mathematics departments at a number of universities. Applicants for these positions are directed to the Board's website and must submit the required materials (college transcripts and a survey of interest form) to the Board. The materials are reviewed by staff members in several divisions, and qualified candidates are ranked based on credentials. Multiple divisions can interview and extend offers to research assistant candidates. Research assistants at the Board are typically employed for two years; however, their positions can be extended for a year.²⁸ Research assistant applicant materials are downloaded to a database that is separate from both the database used for economists' applications as well as the Board's centralized applicant database.

Divisions that recruit for economists request demographic data from applicants in the Board's economist database in a mass e-mail that is sent to all the e-mail addresses obtained from curriculum vitae accumulated during the development of the applicant pool, irrespective of whether the individuals have expressed an interest in working for the Board. Divisions that recruit for research assistants request demographic data from applicants after the applicants submit their

26. For the purposes of our review, an economist or research assistant applicant is a candidate whose information is stored in the economics divisions' proprietary database. These individuals may or may not have expressed an interest in working for the Board. An applicant's job market materials are considered by multiple Board divisions.

27. Multiple divisions may consider any candidate in the database for an economist or research assistant position. As a result, individuals were counted multiple times.

28. Research assistants are considered as part of the Board's permanent workforce.

job market materials. The e-mail contains a form that requests research assistant applicants to voluntarily provide their sex and race/ethnicity. Applicants choosing to disclose this information must return the form via e-mail. Data for all individuals being considered for these positions is manually compiled and submitted to HR. HR combines the economist and research assistant demographic data with all other applicant data contained in the Board's centralized applicant database to complete federal reporting requirements.

Hiring officials in the divisions that recruit economists and research assistants acknowledge that diversity within the economics profession is low and that the Board faces challenges in recruiting minorities for these positions. Divisions that hire for these specialized positions recruit at select schools with economist programs. Hiring officials state that they have taken measures to broaden their outreach for economists to underrepresented groups. For example, Board economists serve as program faculty at the American Economic Association Summer Program, which is designed for minority college-level students studying economics.

In addition, outreach is conducted at the high-school level to enhance students' interest in economics prior to college. For example, the FedEd program promotes outreach to underserved high schools in the Washington, DC, metro area and Math x Econ program brings students who are underrepresented in the field of economics, including minorities and women, from underserved high schools to the Board for a one-day program that highlights careers in economics in general and at the Board in particular.

Subsequent to our review, the Board, in partnership with the American Economic Association, hosted the National Summit on Diversity in the Economics Profession. The conference brought together Presidents and Research Directors of the Federal Reserve Banks and Chairs of economics departments from universities around the country to discuss, among other things, the state of diversity in the economics profession.

Recruiting and Hiring for Officers

Board divisions can recruit officers by using the assistance of an external search firm or using the assistance of Talent Acquisition. Divisions can also promote from within. However, officer hirings are managed by, and must be processed through, HR. Each division is charged with developing a detailed justification memorandum to support its officer selection. According to a Board official, Talent Acquisition and the OD&I review the candidate selection justification before it is submitted for approval by either the Oversight Governor for the division or the full Board of Governors.²⁹

As of June 2014, both Talent Acquisition and the Director of the OD&I are involved in the early activities of the officer hiring process. These activities include, but are not limited to, discussing the recruitment strategy, identifying the selection panel, and reviewing résumés. Information about the officer applicant pool varied from division to division and was not always captured in the Board's centralized database during the years under review.

29. Internal officer promotions are approved by the division's Oversight Governor and the Administrative Governor. For a newly created officer position, officer vacancies filled with external candidates, or a Board employee who is being considered for an officer position, the members of the Board of Governors must approve the position and the new officer appointment.

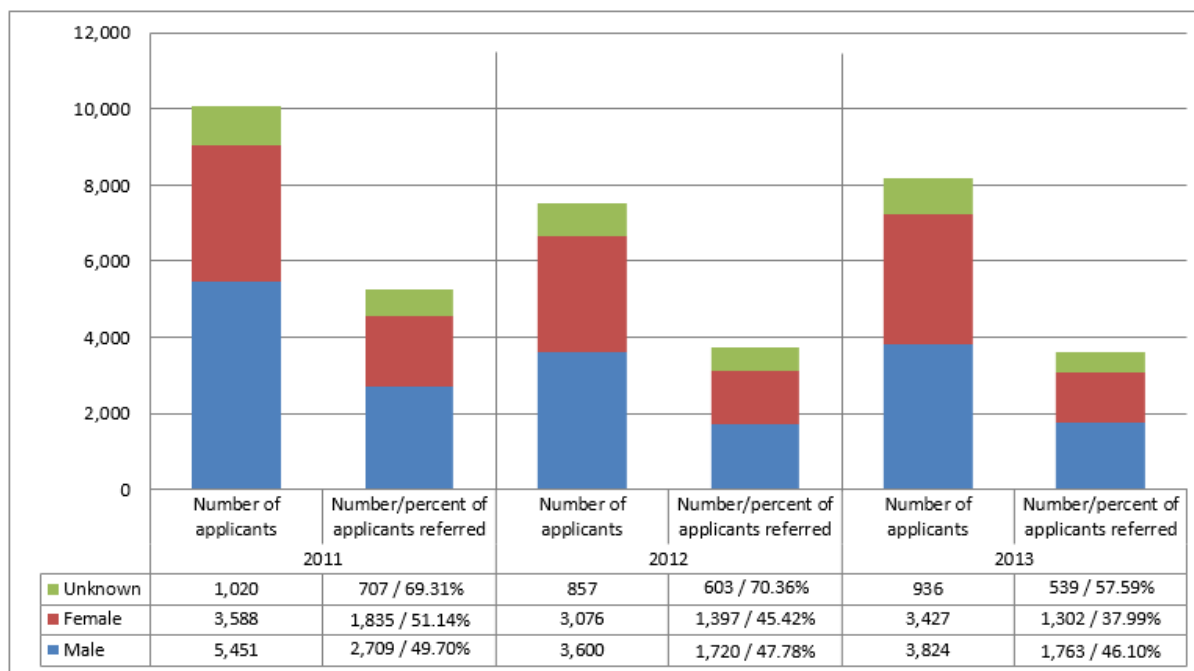
Demographic Statistics

Professional Positions (Other Than Economists and Research Assistants) and Wage Positions

During the application process, applicants for professional positions—including legal assistants, attorneys, senior attorneys, and counsels—and wage positions are prompted to voluntarily provide demographic data, to include sex and race/ethnicity. We analyzed demographic data from the Board’s centralized applicant database pertaining to all applicants, to those applicants found to be qualified and referred to the hiring manager, and to those who were ultimately hired. The Board filled 232 professional and wage positions in 2011, 199 positions in 2012, and 154 positions in 2013.

Figure 5 illustrates the number of male and female applicants who applied and the number who were referred to the hiring manager during the period under our review. We found that similar percentages of male and female applicants were referred to the hiring manager. Applicants who did not voluntarily disclose their sex are included in the *Unknown* category.

Figure 5: Professional Position (Other Than Economist and Research Assistant) and Wage Position Applicants, by Sex, 2011–2013

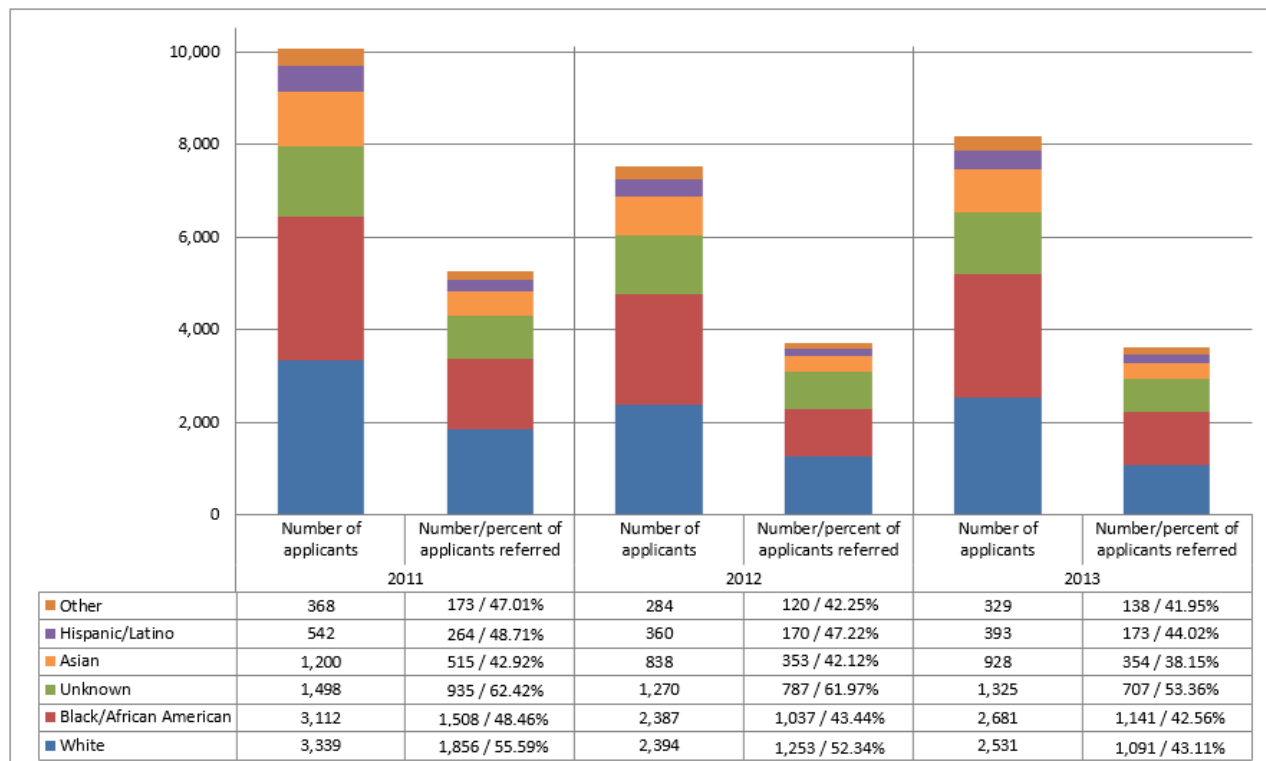


Source: OIG analysis of Board-provided data.

The total distribution of hires by sex for professional positions (other than economists and research assistants) and wage positions during the three-year period was 339 males, or 57.95 percent of the total hired, and 246 females, or 42.05 percent of the total hired.

Figure 6 illustrates the race/ethnicity composition of applicants who applied and were referred to the hiring manager during the three years we reviewed. Applicants who did not voluntarily disclose their race/ethnicity are included in the *Unknown* category.³⁰

Figure 6: Professional Position (Other Than Economist and Research Assistant) and Wage Position Applicants, by Race/Ethnicity,^a 2011–2013



Source: OIG analysis of Board-provided data.

^a*Other* includes (1) Native Hawaiian or Other Pacific Islander (Not Hispanic or Latino), (2) American Indian or Alaska Native (Not Hispanic or Latino), and (3) Two or More Races/Ethnicities (Not Hispanic or Latino). *Unknown* includes individuals who chose not to disclose their demographic data.

Table 2 illustrates, for the period of our review, the race/ethnicity composition of applicants hired for professional positions (other than economists and research assistants) and wage positions. In the three-year period, approximately 43 percent of all such hires were non-White individuals.

30. Because applicants are not asked to provide a birthdate during the application process, we did not conduct an analysis of the age of applicants and referred applicants.

Table 2: Professional Position (Other Than Economist and Research Assistant) and Wage Position Hires, by Race/Ethnicity, 2011–2013

Race/Ethnicity	Number hired	% of hired
Asian	82	14.02
Black/African American	128	21.88
White	333	56.92
Hispanic/Latino	31	5.30
Other ^a	11	1.88
Total hired	585	100.00

Source: OIG analysis of Board-provided data.

Note: All hires fully disclosed their race/ethnicity. We were unable to compare the composition of hires to the composition of the applicant pool due to the number of *Unknown* responses in the applicant pool.

^aOther includes (1) Native Hawaiian or Other Pacific Islander (Not Hispanic or Latino), (2) American Indian or Alaska Native (Not Hispanic or Latino), and (3) Two or More Races/Ethnicities (Not Hispanic or Latino).

For more detailed information on the demographics of applicants for professional positions (other than economists and research assistants) and wage positions, see appendix D.

Specialized Positions for Economists and Research Assistants

We attempted to analyze the demographic trends of economist and research assistant applicants as they moved through the recruiting and hiring process; however, we were unable to perform a meaningful analysis due to the large number of applicants who had not voluntarily disclosed their sex or race/ethnicity.³¹ The economist database for storing applicant information differs from the database used to store information on research assistant applicants, and both are separate from the Board’s centralized applicant database, which is used for other professional and wage position vacancies. As noted above, divisions that recruit for economists and research assistants request demographic data from applicants by sending a form in a separate mass e-mail, and in the case of economist candidates, demographic data is requested irrespective of whether the candidates have expressed an interest in working for the Board. Applicants choosing to disclose this information must return the form via e-mail.

The Board filled 116 economist and research assistant positions in 2011, 85 positions in 2012, and 112 positions in 2013. Upon gaining employment at the Board, all economists and research assistants disclosed their sex for the years under review. The total distribution of economist and research assistant hires by sex during the three-year period was 206 males, or 65.81 percent of the total hired, and 107 females, or 34.19 percent of the total hired.

Table 3 illustrates the total distribution of economist and research assistant hires by race/ethnicity during the period of our review. Approximately 25 percent of economist and research assistant hires during this period were non-White.

31. For the purposes of our review, an economist or research assistant applicant is a candidate whose information is stored in the economics divisions’ proprietary database. These individuals may or may not have expressed an interest in working for the Board. An applicant’s job market materials are considered by multiple Board divisions.

Table 3: Economist and Research Assistant Hires, by Race/Ethnicity, 2011–2013

Race/Ethnicity	Number hired	% of hired
Asian	61	19.49
Black/African American	2	0.64
White	234	74.76
Hispanic/Latino	10	3.19
Other ^a	6	1.92
Total hired	313	100.00

Source: OIG analysis of Board-provided data.

Note: All hires fully disclosed their race/ethnicity. We were unable to compare the composition of hires to the composition of the applicant pool due to the number of *Unknown* responses in the applicant pool.

^aOther includes (1) Native Hawaiian or Other Pacific Islander (Not Hispanic or Latino), (2) American Indian or Alaska Native (Not Hispanic or Latino), and (3) Two or More Races/Ethnicities (Not Hispanic or Latino).

For more detailed information on the demographics of applicants for economist and research assistant positions, see appendix D.

The OIG's Analysis of Nondisclosure of Demographic Information

We found that in 2011, approximately 67 percent of individuals considered for economist and research assistant positions did not voluntarily disclose their sex or race/ethnicity, which was considerably higher than the 10 to 15 percent nondisclosure rate of applicants for professional positions (other than economists and research assistants) and wage positions (table 4). In 2012, the nondisclosure rate of economist and research assistant applicants approximated 59 percent, and in 2013, this rate rose to approximately 92 percent. The low response rate may be attributable to the fact that a mass e-mail is sent to the applicant pool for economist positions, irrespective of whether the individuals have expressed an interest in working for the Board. Also, in 2013, according to a Board official, the e-mail was not sent. See appendix D for a distribution of the applicants who voluntarily disclosed their demographic data.

Table 4: Percentage of Applicants Who Did Not Voluntarily Disclose Demographic Information, by Type of Position, 2011–2013

Applicant type	2011	2012	2013
Unknown sex			
Economist and research assistant	67.01	58.96	92.13
Other professional position and wage position	10.14	11.38	11.43
Unknown race/ethnicity			
Economist and research assistant	67.19	59.31	92.26
Other professional position and wage position	14.89	16.86	16.18

Source: OIG analysis based on Board-provided data.

Officers

We attempted to analyze the applicant demographic data for officer positions; however, these data were not consistently tracked by Talent Acquisition and Board divisions. As such, we conducted an analysis of the sex and race/ethnicity of the number of officers selected during the years under our review. The Board filled 30 officer positions in 2011, 26 in 2012, and 18 in 2013 (table 5). Of these 74 officer positions filled through internal promotions and external hires, 41.89 percent were female. The race/ethnicity composition of officers selected over the three-year period was as follows: 8.11 percent were Asian, 8.11 percent were Black/African American, 81.08 percent were White, 1.35 percent were Hispanic/Latino, and 1.35 percent were Other.

Table 5: Officer Selections, by Sex and by Race/Ethnicity, 2011–2013

Demographic group	2011		2012		2013	
	Number selected	% of selected	Number selected	% of selected	Number selected	% of selected
Sex						
Male	13	43.33	19	73.08	11	61.11
Female	17	56.67	7	26.92	7	38.89
Total	30	100.00	26	100.00	18	100.00
Race/Ethnicity						
Asian	1	3.33	5	19.23	0	0.00
Black/African American	3	10.00	3	11.54	0	0.00
White	25	83.33	17	65.38	18	100.00
Hispanic/Latino	1	3.33	0	0.00	0	0.00
Other ^a	0	0.00	1	3.85	0	0.00
Total	30	100.00	26	100.00	18	100.00

Source: OIG analysis based on Board-provided data.

Note: Officer selections include both internal promotions and external hires.

^aOther includes (1) Native Hawaiian or Other Pacific Islander (Not Hispanic or Latino), (2) American Indian or Alaska Native (Not Hispanic or Latino), and (3) Two or More Races/Ethnicities (Not Hispanic or Latino).

Finding: The Board Cannot Fully Assess the Level of Diversity in the Economist and Research Assistant Applicant Pool

We found that in 2011 and 2012, over half the individuals in the economist and research assistant database did not voluntarily disclose their sex and race/ethnicity; this percentage rose to over 90 percent in 2013. We were informed that in 2013, no economist applicants disclosed demographic information. These rates of nondisclosure did not facilitate demographic trend analysis in the economist and research assistant applicant pools.

The EEOC's guidance to federal agencies for MD-715 reporting instructs agencies to report applicant demographic data for prescribed occupational categories. Pursuant to this guidance, the Board reports applicant pool data for occupational categories that include economists and

research assistants. Further, the guidance states that if a particular group has a low participation rate in a particular occupation, the agency should determine whether recruitment efforts are resulting in a diverse pool of applicants. The Board cannot assess the degree to which the economist and research assistant applicant pool is diverse because the Board's process to collect demographic data for these applicants has resulted in high nondisclosure rates.

Divisions request demographic data from individuals considered for economist and research assistant positions in an additional step in the recruitment process by sending a mass e-mail that contains a form requesting the individual to voluntarily provide his or her sex and race/ethnicity. In the case of economist applicants, this e-mail is sent irrespective of whether the individuals have expressed an interest in working for the Board. Research assistant applicants are asked after their expression of interest in employment. If the individual chooses to disclose this information, he or she must return the form via e-mail. In contrast, professional and wage applicants are asked to voluntarily disclose their demographic data at the time they apply for a position on the Board's website, and the information is stored in the Board's centralized applicant database. In 2013, according to an official, the mass e-mail to request economists' demographic data was never released due to an administrative error.

We found that the method used to obtain demographic data from economist and research assistant applicants did not result in a response rate that enabled the agency to identify diversity trends in its economist and research assistant applicant pool. This method is less effective than the method used for professional positions (other than economists and research assistants) and wage positions, which yields a higher percentage of applicants disclosing demographic data.

Management Actions

According to an official, the Board implemented a new process for economist candidates in 2014 in which the Board automatically requests self-disclosure of demographic information within 24 hours of the Board obtaining an economist applicant's e-mail address. This process eliminates the administrator's role of releasing the mass e-mail.

Recommendation

We recommend that the Directors of the divisions that recruit economists and research assistants

1. Develop and implement an alternative method for collecting the demographic data of economist and research assistant applicants to improve the response rate.

Management's Response

The Board concurs with our recommendation. In its response, the Board notes that management began implementing a new process to automatically request self-disclosure of demographic information within 24 hours of obtaining an economist applicant's e-mail address. The Board will assess whether this change provides a significant improvement in response rates for economist and research assistant applicants and, if not, will consider other changes in order to obtain demographic data for economist and research assistant applicants.

OIG Comment

The actions described by the Board are generally responsive to our recommendation. We plan to follow up on the Board's actions to ensure that the recommendation is fully addressed.

Finding: The Board Did Not Consistently Track Officer Applicant Demographic Data

We found that the Board's method for recruiting and hiring officers did not produce information that shows the diversity of the applicant pool. Demographic information for the officer applicant pool was not consistently tracked by Talent Acquisition, the hiring division, or the executive search firms used by divisions. We also noted that during 2011–2013, two officer positions were tracked in the Board's centralized applicant database.

The MD-715 guidance requires agencies to report applicant demographic data for occupational categories, including senior-level positions. Further, the guidance states that if a particular group has a low participation rate in the applicant pool, the agency should determine whether recruitment efforts are resulting in a diverse pool of applicants.

Historically, the Board's divisions have operated autonomously in establishing their management processes, including those for recruiting and hiring officers. A division may fill an officer vacancy by promoting from within the division, using an executive search firm, or posting a vacancy announcement through the Board's centralized applicant database. Because the Board has several methods to recruit and hire officers and does not consistently collect voluntary demographic data for officer applicants, the Board cannot assess the diversity of the applicant pool for officer-level positions. By establishing a standardized formal process to ensure that officer applicant demographic data are captured, the Board can better assess whether its officer recruitment efforts are resulting in a diverse pool of applicants.

Management Actions

In June 2013, the Board began a more standardized process to recruit for officer positions. Further, all officer positions will be tracked through the centralized applicant database. This standardized process may allow Talent Acquisition to accumulate demographic data and measure trends in diversity at the officer-applicant level. While these efforts will provide the Board with better information to assess the diversity of its officer applicant pool, we note that there may be gaps in the demographic data when divisions use an executive search firm to recruit officer candidates.

Recommendation

We recommend that the Chief Human Capital Officer

2. Ensure that the demographic data for all internal and external officer applicants are maintained in the Board's centralized applicant database.

Management's Response

The Board concurs with our recommendation. In its response, the Board notes that management began to implement processes to track officer positions, which it believes will allow it to accumulate demographic data and measure trends in diversity at the officer-applicant level.

OIG Comment

The actions described by the Board are generally responsive to our recommendation. We plan to follow up on the Board's actions to ensure that the recommendation is fully addressed.

Performance Management

The purpose of the Board's Performance Management Program is (1) to continuously improve individual and organizational performance, (2) to develop and motivate employees to become top performers and help the Board achieve its mission and purpose, and (3) to inform various employment decisions.

This section presents information on performance management for the period of our review, including a summary of the Board's process and trend statistics based on the independent analysis performed by an external consulting firm. The consulting firm's analysis indicated statistically significant differences in performance ratings among certain demographic groups on an agency-wide basis. When these demographic groups' performance ratings were evaluated by pay grade category, however, in most cases there was no trend of statistically significant differences.³² The agency-wide differences do not necessarily indicate discrimination and could be due to actual differences in employee performance or other factors. Further analysis of performance ratings may help the Board identify any patterns that may indicate potential unfair or unequal treatment. The Board piloted a new performance management system in 2014; performance management data associated with the new rating system are not reflected in our analysis.

The Board's Process

The Board's *Performance Management Program* policy describes the Board's Performance Management Program, which provides the framework for an employee's annual performance assessment and rating during the period of our review. The Board's performance periods follow a fiscal year (October 1 through September 30) schedule. Supervisors are responsible for creating performance standards, monitoring performance, and providing employees with feedback on their performance. Supervisors are required to conduct an annual, written review of an employee's performance, which should be reviewed by the supervisors' manager before issuance to the employee. In the fiscal year (FY) 2011, FY 2012, and FY 2013 rating periods, employees were assigned one of five possible ratings: *extraordinary*, *outstanding*, *commendable*, *marginal*, and *unsatisfactory*.³³

According to the Board's policy, the reviewing manager should attempt to resolve any disagreement between an employee and his or her supervisor with respect to the employee's performance rating. Further, Board employees other than a Division Director, an Office Director, or the Chief Operating Officer can, within a certain time frame, appeal their performance rating

32. The external consulting firm we used refers to this as *job level* rather than pay grade category.

33. Economists were on a seven-tier system: *extraordinary*, *outstanding plus*, *outstanding*, *commendable plus*, *commendable*, *marginal*, and *unsatisfactory*.

with the Director of the division or office.³⁴ ER will assist in facilitating this process. However, if the appeal is based on sex, race/ethnicity, or age, the employee must file a separate complaint with the OD&I.³⁵

Annual performance ratings are the basis for determining merit salary increases, which are administered by Compensation, and the ratings may also be considered when determining variable pay, eligibility for additional incentive programs, and promotions.³⁶ Employees with a rating of *marginal* or *unsatisfactory* are not eligible for merit increases or other types of performance-based pay.

Demographic Statistics

Results From an External Consulting Firm's Analysis Performed for the OIG

We used an external consulting firm to conduct an independent analysis of the Board's FY 2011, FY 2012, and FY 2013 employee performance ratings. The consulting firm conducted tests of statistical significance and practical significance to evaluate group differences.³⁷ For analysis purposes, the consulting firm analyzed gender and age differences, as well as race/ethnicity differences among the White, Black/African American, Hispanic/Latino, Asian, and Other groups.³⁸ The consulting firm evaluated performance data for three pay grade categories: *senior managers and officers* (FR-29 and 00), *mid-level professionals* (FR-26 to FR-28), and *all others*³⁹ (FR-16 to FR-25 and WE-41 to WE-47).

The external consulting firm's analysis revealed that overall during the three-year period, approximately 99 percent of Board employees received ratings of *commendable* or above (table 6).⁴⁰

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34. The Chief Human Capital Officer will review appeals if the Division Director is the supervisor or the reviewing manager. If the Chief Human Capital Officer is the supervisor or the reviewing manager, the Board's General Counsel will appoint an appeals officer.
 35. The OD&I and ER ensure that the appropriate office handles an employee's complaint, depending on the basis. Gender, race/ethnicity, age, or disability discrimination claims are handled by the OD&I; other workplace complaints are handled by ER.
 36. During the review period, variable pay was generally targeted toward officers and employees in designated job families that (1) are critical to the execution of the Board's core mission, (2) require skills that are in high demand in the marketplace, (3) have salaries well below prevailing market levels, and (4) experience recruiting difficulties and high rates of turnover. Compensation reviews new variable pay requests for additional job families and makes a recommendation to the Chair of the Committee on Board Affairs, who makes the final determination.
 37. A test for statistical significance indicates the probability that the group difference could have been due to chance. In contrast, measures of practical significance provide an indication of the size of the difference.
 38. *Other* includes American Indian/Alaskan Native, Native Hawaiian/Pacific Islander, individuals identifying themselves as belonging to two or more races, and individuals who chose not to disclose demographic data.
 39. In this section of the report, the external consulting firm's use of the term *all others* equates to our use of the term *all other professional employees and all wage employees* elsewhere in the report.
 40. Economists who were rated *outstanding plus* are shown as *outstanding* and those rated as *commendable plus* are shown as *commendable*.

Table 6: Distribution of Performance Ratings for All Employees, FY 2011–FY 2013

Performance ratings	FY 2011		FY 2012		FY 2013	
	Number of rated employees	% of total rated employees	Number of rated employees	% of total rated employees	Number of rated employees	% of total rated employees
1— <i>extraordinary</i>	378	19.13	429	20.27	480	22.39
2— <i>outstanding</i>	712	36.03	848	40.08	956	44.59
3— <i>commendable</i>	882	44.64	829	39.18	696	32.46
4— <i>marginal</i>	4	0.20	10	0.47	12	0.56
5— <i>unsatisfactory</i>	0	N/A	0	N/A	0	N/A
Total	1,976	100.00	2,116	100.00	2,144	100.00

Source: External consulting firm analysis based on Board-provided data.

The results of the consulting firm’s analysis of the Board’s FY 2011, FY 2012, and FY 2013 performance ratings indicated statistically significant differences among Board employees across certain demographic groups on an agency-wide basis. However, when these demographic groups’ performance ratings were evaluated by pay grade category, in most cases, there was no trend of statistically significant differences. These statistically significant differences do not necessarily indicate discrimination and could be due to a variety of factors either individually or in combination, such as actual differences in employee performance. A statistically significant result does not imply that a difference is good or bad or that it is large or small; it indicates that the observed difference is probably not due to chance.

The external consulting firm did not find statistically significant differences in the gender category. However, the consulting firm found statistically significant differences in the following race/ethnicity and age categories:

- In all three years, on an agency-wide basis, White employees received higher performance ratings compared with Asian employees; however, there were no significant differences in performance ratings when analyzed at the job levels.
- In all three years, on an agency-wide basis, White employees received higher performance ratings compared with Black/African American employees. In 2012 and 2013, there were no statistically significant differences in performance ratings when analyzed at the job levels. In 2011, there was a statistically significant difference between the average ratings of White employees and Black/African American employees for the *all others* employee job level.
- In 2013, in the *senior managers and officers* category, Hispanic/Latino employees received higher performance ratings as compared with White employees. The comparison included 247 White employees and only 7 Hispanic/Latino employees; therefore, these results should be interpreted with caution.⁴¹

41. According to the external consulting firm, small sample results are often nonrepresentative and unstable and can change substantially with small changes in the data.

- In 2012, on an agency-wide basis, White employees received higher performance ratings compared with Hispanic/Latino employees; however, there were no significant differences in performance ratings when analyzed at the job levels.
- In 2012, on an agency-wide basis, employees 40 years of age or older received higher performance ratings than employees under 40 years of age; however, there were no significant differences in ratings for employees under 40 years of age and employees 40 years of age or older within the *senior managers and officers* job level and within the *all others* employee job level.
- In all three years, in the *mid-level professionals* category, employees under 40 years of age received higher performance ratings than employees 40 years of age or older.

The consulting firm's full report on the Board's employee performance ratings is included as appendix E.

The OIG's Analysis

In addition to the external consulting firm's statistical analysis of performance ratings for the entire Board, we analyzed performance ratings by division to determine average performance ratings for FY 2011, FY 2012, and FY 2013 by race/ethnicity. We did not evaluate these averages for statistical significance, and we did not conduct analyses by pay grade category.

The results of our analysis by division were similar to the external consulting firm's agency-wide findings discussed above.⁴² These observations do not necessarily indicate discrimination and could be due to a variety of factors. Appendix F contains our analysis of performance management data by divisions.

Finding: The Board Has Not Conducted Analyses of Employee Performance Reviews on an Annual Basis

According to a Board official, the Board does not consistently conduct a review of the distribution of performance ratings to ascertain how the ratings are distributed across sex, race, or people 40 years of age or older. The Board has periodically analyzed aggregate performance ratings distributions by divisions. Further, in 2012, the Board surveyed employees on the Performance Management Program. The final results report indicates survey participant concerns with effectiveness, fairness, and rater bias.

One government best practice suggests that organizations should gather and analyze statistics on the distribution of performance ratings.⁴³ Uneven ratings distributions across gender and race/ethnicity might raise questions about fairness. If differing treatment is found within the performance appraisal process, efforts should be made to determine whether appraisal design

42. The external consulting firm reversed the order of the Board's performance management rating system so that higher ratings reflected better performance. However, our analysis reflects the Board's ordering of performance ratings, in which a lower rating number reflected higher performance (e.g., *extraordinary* is represented by a rating of 1).

43. U.S. Office of Personnel Management, *Evaluating Performance Appraisal Programs: An Overview*, PMD-09, January 1999.

features are causing the lack of balance in the ratings or whether other issues at the organization may be responsible.

As previously noted, the external consulting firm found statistically significant differences in performance ratings among certain demographic groups on an agency-wide basis. When these demographic groups' performance ratings were evaluated by pay grade category, however, in most cases there was no trend of statistically significant differences. Additional analyses of employee performance ratings will allow the Board to better determine whether its performance management system supports the development and retention of a diverse workforce.

Management Actions

The Board acknowledged challenges with the performance management system in place during the review period. In discussions about the performance management framework, employees were in favor of a framework that (1) focused on growth, (2) included ongoing conversations between managers and employees, (3) created a partnership between managers and employees, and (4) potentially had a more effective method to rate performance. The Board decided to adopt a new performance rating system.

The new performance management process was piloted in five divisions and the OIG for performance year 2013–2014, with full implementation in all Board divisions in the 2014–2015 performance year. The purpose of the new process is to align staff to the work of the Board, provide greater accountability, support the growth of staff, improve the value of time spent, and increase the fairness of the process. In addition, the new process involves frequent conversations between employees and their managers that are designed to develop and grow employees' capabilities. The Board contracted for the necessary expertise to assist with the program's implementation, which includes information sessions, tools and guides, training, and other support.

Recommendation

We recommend that the Chief Human Capital Officer

3. Consider conducting annual analyses of the distribution of employee performance ratings to identify whether patterns exist that may indicate unfair or unequal treatment. If the analyses reveal patterns that may indicate unfair or unequal treatment, determine whether any actions are necessary.

Management's Response

The Board concurs with our recommendation. In its response, the Board notes that a periodic analysis focused on areas in which management has potential concerns may be useful. Management will consider the feasibility of conducting additional analyses on a periodic basis.

OIG Comment

The actions described by the Board are generally responsive to our recommendation. We plan to follow up with the Board to determine its final decision in considering our recommendation.

Promotions and Succession Planning

In the OIG's September 2014 *Major Management Challenges for the Board of Governors of the Federal Reserve System*, we reported on the Board's risk associated with staff retirement and turnover, as well as challenges the Board faces in replacing employees with specialized knowledge and skill sets. One way to address such challenges is through succession planning. GAO states that succession planning is a comprehensive ongoing process that provides for forecasting senior leadership needs, identifying and developing candidates with the potential to fill future leadership position openings, and selecting individuals from a diverse pool of qualified candidates to meet executive resource needs. Similarly, promotions can also be a vehicle for increasing agency diversity.

This section presents information on the Board's career-ladder promotions process as well as demographic statistics on promotions. We found that the Board started a formal succession planning process in late 2012, but it has not yet been fully implemented across all Board divisions.

The Board's Processes

Promotions

Promotions at the Board may be made in a competitive manner or through career-ladder progression. A competitive promotion is a grade increase that results when an employee applies for a vacant position in a higher grade level than the current employee's grade level, competes from a pool of applicants, and is hired for the position. Competitive promotions are addressed in the Board's *Vacant-Position Posting* policy. Information on competitive promotions is included in the Recruiting and Hiring section of this report.

A career-ladder promotion is available to both wage and professional employees in positions that allow for the employee to be promoted to one or more sequentially higher pay grades within the career ladder for his or her position. Employees in such positions may become eligible for a career-ladder promotion once they complete any required time within the grade and have proven their ability to perform satisfactorily at the next-higher pay grade. An employee's manager or supervisor recommends an employee for a career-ladder promotion by preparing a written justification. Once the recommendation is approved within the respective division, Talent Acquisition processes the personnel action.

Succession Planning

According to GAO, agencies with effective succession planning and management efforts determine the critical skills and competencies that will be needed to achieve current and future program results; develop strategies tailored to address gaps in human capital approaches for enabling and sustaining the contributions of all critical skills and competencies; and address

specific human capital challenges, such as diversity.⁴⁴ In addition, succession planning is one of GAO's nine leading diversity management practices. In that context, GAO describes strategic planning as an ongoing, strategic process for identifying and developing a diverse pool of talent for an organization's potential future leaders.

The Board developed a two-phase, formal agency-wide succession planning program in late 2012 to help identify a diverse pool of candidates for senior management positions throughout the Board. The Board's program will identify development opportunities for employees to prepare them for potential advancement. Both phases entail planning discussions with Board senior management focusing on three elements: (1) employee performance, (2) learning agility, and (3) readiness.

Phase 1 discussions are held with Division Directors and Deputy Directors regarding their direct reports at the officer level. Phase 2 of the Board's succession planning program will involve discussions with officers regarding their managers. The Board currently does not have a formal plan for Board employees in nonsupervisory roles; however, divisions have engaged in informal succession planning practices that are separate from the Board's formal succession planning program.

Demographic Statistics

We conducted an analysis of career-ladder promotions for all three pay grade categories at the Board. For the purpose of this report, our analysis focuses on career-ladder promotions by race/ethnicity in 2011, 2012, and 2013 (figure 7). We did not conduct an analysis of the eligibility requirements based on time in grade for career-ladder promotions because these requirements vary by division and position type. In addition, an employee's performance rating may also factor into his or her eligibility. Therefore, the results of our trend analysis do not necessarily indicate discrimination or bias and could be due to a variety of factors.

In 2011 through 2013, the Board awarded a total of 610 career-ladder promotions. Of these 610 promotions,

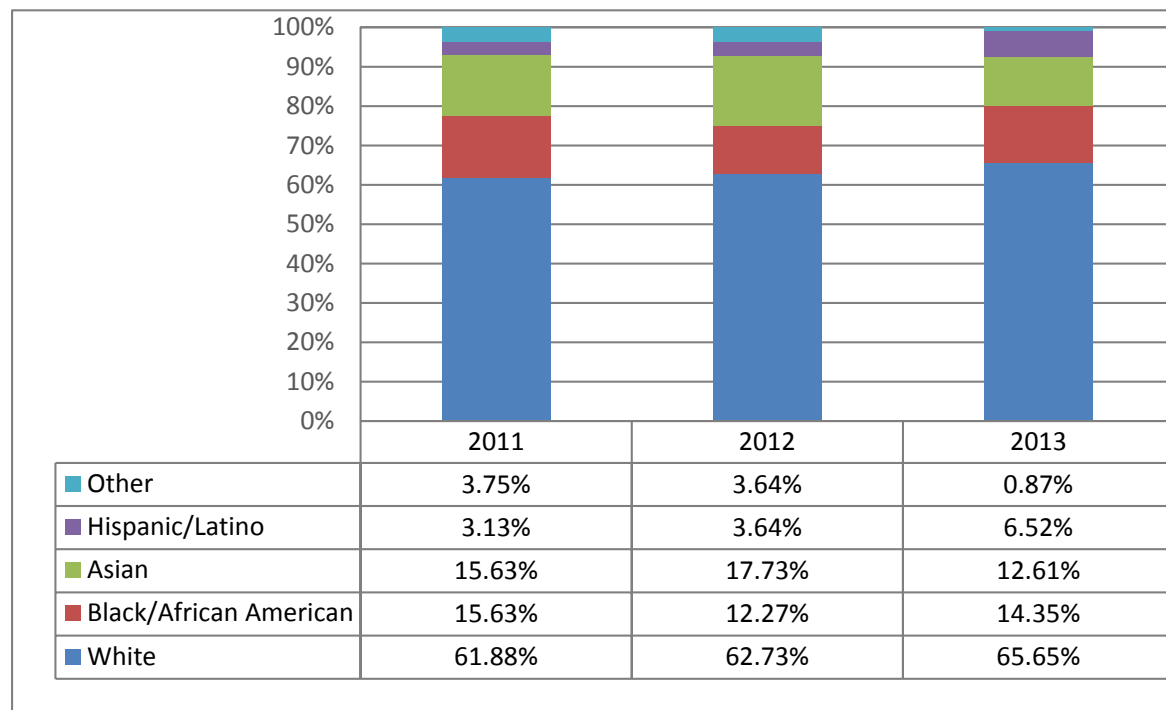
- 460 occurred in the *all other professional employees and all wage employees* category (FR-16 to FR-25 and WE-41 to WE-47)
- 144 occurred in the *mid-level professionals* category (FR-26–FR-28)
- 6 occurred in the *senior managers and officers* category (FR-29–00)⁴⁵

As a percentage of the overall workforce during 2011–2013, female employees accounted for 44.89 percent of the workforce and received 42.13 percent of the career-ladder promotions. Male employees accounted for 55.11 percent of the workforce and received 57.87 percent of the career-ladder promotions.

44. U.S. Government Accountability Office, *Human Capital: Selected Agencies Have Opportunities to Enhance Existing Succession Planning and Management Efforts*, GAO-05-585, June 2005.

45. All six promotions were from FR-28 to FR-29.

Figure 7: Career-Ladder Promotions Awarded, by Race/Ethnicity, 2011–2013^a



Source: OIG analysis of Board-provided data.

^aOther includes (1) Native Hawaiian or Other Pacific Islander (Not Hispanic or Latino), (2) American Indian or Alaska Native (Not Hispanic or Latino), (3) Two or More Races/Ethnicities (Not Hispanic or Latino), and (4) Not Specified (i.e., individuals who chose not to disclose demographic data).

For additional information on the 2011–2013 career-ladder promotions by sex, race/ethnicity, and age within each pay grade category, refer to appendix G.

The Board Is in the Process of Implementing Its Formal Succession Planning Process

The Board developed a two-phase, formal agency-wide succession planning program in late 2012 to help identify a diverse pool of candidates for senior management positions throughout the Board. Phase 1 of the Board's process has been implemented in 8 of the 14 divisions and the OIG. The Board anticipates implementing phase 1 in the remaining 6 divisions by 2016. Phase 2 will begin by the end of 2015. Both phases are scheduled for full implementation by 2017.

GAO's *Diversity Management: Expert-Identified Leading Practices and Agency Examples* defines succession planning as

a comprehensive, ongoing strategic process that provides for forecasting an organization's senior leadership needs; identifying and developing candidates who have the potential to be future leaders; and selecting individuals from among a diverse pool of qualified candidates to meet executive resource needs. . . . Succession planning and management can help an organization become what it needs to be, rather than simply recreate the existing organization.⁴⁶

In addition, GAO reports that succession planning is also tied to the federal government's "opportunity to change" the diversity of its executives through new appointments.

Board officials informed the OIG that most divisions have performed some form of succession planning. For example, one Board division is developing a process to meet with every officer, manager, and supervisor to determine the developmental requirements for preparing a qualified replacement. Further, the division is developing key competencies for each pay grade and plans to identify training to complement these competencies. These steps are designed to guide staff members as they progress through the division's career ladder. Another division offers a robust staff development program that focuses on technical training and soft skills.⁴⁷ Aside from the Board's formal succession planning program, Board divisions have taken actions to develop staff members.

Succession planning is associated with opportunities to change diversity at the executive level.⁴⁸ Therefore, the establishment within the Board of a formal succession program may help the Board in its efforts to reach diversity and inclusion goals.

46. U.S. Government Accountability Office, *Diversity Management: Expert-Identified Leading Practices and Agency Examples*, GAO-05-90, January 14, 2005.

47. Soft skills include, but are not limited to, communication, self-awareness, motivation, social skills, and empathy.

48. U.S. Government Accountability Office, *Diversity Management: Expert-Identified Leading Practices and Agency Examples*, GAO-05-90, January 14, 2005.

Employee Complaints

Employees can raise grievances through the EEO and non-EEO processes. The Board has a defined EEO complaint process for applicants and Board employees who believe that they have been a victim of discrimination. The non-EEO process includes providing opportunities for employees to file and resolve grievances related to unfavorable performance ratings, unfair treatment, harassment, relationships with coworkers, and disciplinary actions.

This section provides a summary of the Board's processes and statistics related to EEO and non-EEO case data. We noted an opportunity for the Board to better communicate non-EEO case statistics to all divisions.

Related Laws and Regulations

Although not required by law, the Board follows several laws and regulations related to the EEOC and the processing of EEO complaints. In particular, the Board follows the requirements of the MD-715, which provides guidance and standards for establishing and maintaining effective EEO programs that ensure that all employees have equal opportunity without regard to race/ethnicity, color, religion, national origin, age, sex, or disability.⁴⁹

The Board has also adopted, as part of its employment rules, EEO laws that prohibit discrimination, including the provisions of the No FEAR Act that require the Board to report and provide training on compliance with EEO laws and to post on its public website on a quarterly basis certain summary statistical data relating to EEO complaints.

The Board's Process for EEO Complaints

The Board's *Equal Employment Opportunity Policy*, revised May 13, 2013, provides for equal opportunity in employment for all persons and applies to, among other human resources-related functions, the EEO complaint process. The Board prohibits discrimination in employment on the basis of race/ethnicity, color, religion, sex, national origin, age, disability, or genetic information, and promotes the full realization of EEO through a continuing affirmative program. The Board also prohibits discrimination on the basis of any application, membership, or service in the uniformed services. In addition, as a matter of policy and although it is not required by law, the Board prohibits discrimination in employment on the basis of sexual orientation. An applicant or Board employee who believes that he or she has been discriminated against should consult with the OD&I within 45 days of becoming aware of the alleged discriminatory act or personnel action.

49. These programs are under of title VII, section 717, of the Civil Rights Act of 1964 and section 501 of the Rehabilitation Act of 1973.

Informal EEO Complaints

The informal process begins when an EEO counselor is assigned to conduct an initial counseling session with the complainant to obtain information about the alleged complaint. The EEO counselor then has 30 calendar days to make inquiries, attempt to resolve the matter, and advise the employee on the process to file a formal complaint. On a case-by-case basis, the EEO counselor may offer the complainant the right to engage in the alternative dispute resolution process. If counseling sessions or the alternative dispute resolution process cannot resolve the matter, or if a complaint in mediation is not resolved by the 90th day, the EEO counselor will issue a written notice to the complainant stating that it is the complainant's right to file a formal complaint within 15 days of receipt of the notice.

Formal EEO Complaints

If a formal complaint is filed, an EEO counselor will review the complaint and determine the issues that will be accepted for investigation. During the investigation stage, an independent investigator will be contracted to investigate the issues accepted in the complaint. At the close of the investigation, the OD&I will provide the complainant with an investigative report. On receipt of the investigative report, the complainant has 30 days to take one of the following courses of action:

- Request from the OD&I a final Board decision without a hearing; the Board has 60 calendar days to render a decision.
- Request a hearing and decision from an EEOC Administrative Judge, followed by a final decision by the Board.⁵⁰

If a complainant does not agree with the final decision that has been rendered by the Board, the complainant may take the following courses of action:

- Appeal to the EEOC upon the Board's dismissal of, or its final decision on, a formal complaint within 30 calendar days of receipt of the Board's dismissal or final decision.
- File a civil action in U.S. district court within 90 calendar days of the Board's final decision or the EEOC's decision on appeal.
- If 180 days have elapsed since the filing of the formal complaint, request a hearing from an EEOC Administrative Judge.
- If 180 days have elapsed since the filing of the formal complaint or since the filing of an appeal with the EEOC, file a civil action in U.S. district court.

50. Employees who request a hearing before an EEOC Administrative Judge must notify the OD&I. The EEOC will appoint an EEOC Administrative Judge to hold the hearing. The Administrative Judge will make findings of fact and conclusions of law and will issue a decision. The Board will have 40 calendar days from the date it receives the Administrative Judge's decision to issue a final order informing the complainant of whether it will implement the decision. If the Board does not implement the Administrative Judge's decision, the complainant can file an appeal with the EEOC simultaneously with the issuance of the Board's final order.

Statistics

Informal EEO Complaints

From FY 2011 through FY 2013, the OD&I conducted 166 counseling sessions.⁵¹ A counseling session is a conversation between an EEO staff member and a complainant. The number of counseling sessions for FY 2011–FY 2013 remained relatively steady. Specifically, there were 58 counseling sessions in FY 2011 and 54 counseling sessions each year in FY 2012 and FY 2013.⁵²

Formal EEO Complaints

Overall, the total number of new formal EEO complaints was 8 in FY 2011, 11 in FY 2012, and 2 in FY 2013.⁵³ Of the 21 new complaints filed during FY 2011–FY 2013, the most common EEO issues were as follows:

- **Retaliation.** Federal law prohibits the removal, demotion, harassment, or otherwise retaliatory activity against employees because they filed a charge of discrimination or because they complained to their employer about discrimination on the job.
- **Hostile work environment/harassment.** Hostile work environment or harassment is created by unwelcome conduct that is based on race, color, religion, sex, national origin, age, disability, or genetic information.⁵⁴
- **Disparate treatment.** This prohibited treatment is apparent when an individual of a protected group is shown to have been singled out and treated less favorably than others who are similarly situated based on race, color, religion, sex, national origin, age, disability, or genetic information.

A complainant may file multiple issues in a single complaint.

51. The Board operates on a calendar-year basis; however, EEOC reporting requirements are based on a fiscal-year basis. Therefore, the OD&I reports counseling session data and EEO cases filed on a fiscal-year basis. Counseling sessions are counted, but to preserve anonymity, complainant identification data are not collected. As a result, the counseling session counts may include OIG personnel who are otherwise excluded from the data in this report.

52. Complainants may receive multiple counseling sessions; therefore, the number of counseling sessions per fiscal year may be greater than the number of complainants who sought counseling.

53. The OIG was excluded from this audit; therefore, we excluded OIG complaints. During this period, we noted that for the 21 complaints filed, there were 21 complainants.

54. Harassment becomes unlawful when (1) enduring the offensive conduct becomes a condition of continued employment or (2) the conduct is severe or pervasive enough to create a work environment that a reasonable person would consider intimidating, hostile, or abusive.

EEO Processing Time

The Board reports EEO complaint processing times as part of its No FEAR Act reporting. Investigations must be completed within 270 days, including extension, of the filing date of an individual complaint.⁵⁵ We noted that during FY 2011–FY 2013, the average number of days complaints were in the investigation stage rose sharply in FY 2013; however, the Board’s average remained below the 270-day requirement. In addition, the average number of days that complaints were in the final action stage rose in FY 2012 and then declined in FY 2013 (table 7).⁵⁶

Table 7: EEO Complaint Processing Times, FY 2011–FY 2013^a

Complaint phase	Average number of days, FY 2011	Average number of days, FY 2012	Average number of days, FY 2013
Investigation	151	133	228
Final action	36	53	26

Source: The Board’s *No FEAR Act Report*, September 18, 2014.

^aComplaint processing times include data from all EEO complaints filed during FY 2011–FY 2013, including EEO complaints filed by the OIG.

The Board’s Process for Non-EEO Matters

The Board’s non-EEO process is initiated when a Board employee or an employee’s supervisor contacts ER for advice or guidance. ER categorizes non-EEO matters into 21 categories that include performance, leave, attendance, or other workplace issues (such as perceived unfair or unprofessional treatment, concerns about promotions, or relationships with coworkers), and disciplinary actions.⁵⁷

ER will provide one or more counseling sessions to help resolve a non-EEO issue. At any time during this counseling process, a Board employee or supervisor can choose to file a non-EEO case, which requires ER to take action aside from counseling, such as mediation. When this occurs, ER documents the action as a non-EEO case. Cases include employee complaints and adverse actions taken by the Board against an employee.

ER recorded 711 active non-EEO cases during 2011–2013, excluding the OIG. The majority of the cases were concentrated in four categories related to performance, work, leave, and disciplinary actions, which are defined as follows:

-
55. This requirement derives from *Management Directive 110*, which provides federal agencies with EEOC policies, procedures, and guidance relating to the processing of employment discrimination complaints governed by the EEOC’s regulations in title 29, part 1614, of the *Code of Federal Regulations*.
56. When an Administrative Law Judge renders a decision, final action is required within 40 days of receipt of the hearing file and the Administrative Law Judge’s decision. The Board’s *Rules Regarding Equal Opportunity* delineates time frames for other circumstances and particular complaints.
57. For purposes of this report, performance issues include performance, performance management, and performance improvement. Categories that garnered fewer complaints include adverse action, disability, fit for duty, garnishment, harassment, Americans with Disabilities Act, selection, suitability, and other/miscellaneous.

- Performance issues include matters related to an employee's performance under the Board's performance management system.
- Work issues include employee complaints or questions regarding unfair treatment on the basis of conduct or reasons that do not adversely affect the employee's performance and that are not covered under existing laws regarding discrimination.
- Leave issues include an employee's failing to follow leave procedures, being tardy, and making false statements related to a leave request. Other leave complaints may include leave administration matters such as Family and Medical Leave Act requests.
- Disciplinary actions document oral counseling, a written warning, or a suspension of 14 calendar days or less. Disciplinary actions only address conduct-related problems and provide for disciplinary measures that are less severe than those outlined in the Board's *Adverse Action Policy* and associated procedures.

In general, ER works to resolve all non-EEO matters informally through counseling sessions or formally as a case between the employee and management within four to six weeks. Resolution time frames vary, however, based on the type of case.

The Board maintains non-EEO case data on a calendar-year basis. Overall, we noted that the number of active non-EEO cases as of year-end 2011, 2012, and 2013 were 232, 229, and 250, respectively.⁵⁸ We found that in 2011, the average processing time was 147 days; in 2012, 153 days; and in 2013, 155 days. In general, resolution time frames vary based on the type of case.

Finding: Non-EEO Case Statistics Were Not Provided to Divisions on a Regular Basis

We found that during 2011–2013, ER provided non-EEO case statistics to Board divisions only on request. According to ER, if it detected a pattern of non-EEO cases (i.e., three or more) in a specific division, it would typically address the issue by offering counseling or training to division officials to prevent future occurrences. We also noted that the HR division compiled aggregate statistics in an internal report each year; however, only the report containing 2013 data was distributed to the divisions in May 2014.⁵⁹

One of ER's objectives is to identify emerging employee relations issues and trends that may affect employee morale and notify management of such issues in advance of any impact. ER's practice is to collect non-EEO case data, conduct trend analysis, and submit this information to Management Division officials and to divisions that specifically request this information. While we acknowledge that ER collected this information, this information was not disseminated to all Board divisions. Further, according to a Board official, there was no systematic process in place to distribute the annual HR report that contained aggregate non-EEO statistics to all divisions in the Board in 2011 and 2012.

58. Formal non-EEO cases are tracked in a centralized database by ER; one employee may have more than one formal case.

59. The Management Division publishes an annual internal HR operations report. This report includes the number of new hires, employee benefits, separations, and employee exit interview data, among other types of information.

Disclosure of non-EEO case statistics to all Board divisions will help the divisions to identify barriers and other issues related to harassment, unfair treatment, relationships with coworkers, disciplinary action, and unfavorable performance ratings that may relate to diversity and inclusion. In addition, sharing information with division officials may assist them in identifying any patterns. Communicating non-EEO case data to all divisions can help to mitigate similar occurrences and assist in developing improvement strategies.

Management Actions

ER provided Division Directors with a more detailed non-EEO trend statistics report in October 2014 with the intent of obtaining their feedback and suggestions for an ongoing information exchange. This was the first detailed report to be distributed to all Division Directors. ER intends to distribute non-EEO trend statistics on at least a quarterly basis.

Recommendation

We recommend that the Chief Human Capital Officer

4. Ensure that aggregate non-EEO case statistics are provided to all Division Directors and that division-specific statistics are provided to the respective Division Director.

Management's Response

The Board concurs with our recommendation. In its response, the Board notes that management began providing Division Directors with non-EEO trend statistics and plans to continue this practice on a quarterly basis.

OIG Comment

The actions described by the Board are responsive to our recommendation. We plan to follow up on the Board's actions to ensure that the recommendation is fully addressed.

Employee Surveys

According to GAO, involving employees in diversity management efforts helps drive diversity throughout an organization. Employee surveys provide an opportunity for employees to share with management their perceptions of the agency's diversity and inclusion, culture, and work environment.⁶⁰

This section presents information on the Board's efforts to obtain employee feedback. Specifically, we provide the Board's practices on satisfaction and exit surveys as well as demographic information regarding separations from the Board during the 2011–2013 period.

The Board's Process

The Board did not conduct agency-wide employee satisfaction surveys during the 2011–2013 period. On September 4, 2014, an external consulting firm administered the Board's first agency-wide engagement survey. Eighty-seven percent, or 2,147 employees, responded to the survey in its entirety. The survey included the three questions below, which were designed to gather data specifically related to employee perceptions of diversity and inclusion. Employees were asked to rate their responses as *strongly agree*, *agree*, *neutral*, *disagree*, or *strongly disagree*. As detailed below, 64 percent to 75 percent of respondents answered either *strongly agree* or *agree* to the three questions.

<u>Diversity and inclusion question</u>	<u>% responding <i>strongly agree</i> or <i>agree</i></u>
My organization's policies promote fair treatment of employees regardless of their different diversity characteristics.	75
My organization values employees with varied backgrounds and experiences.	67
My organization is committed to promoting diversity and inclusion.	64

The Board is continuing to assess the results of the 2014 survey and will determine what, if any, action plans are needed. These action plans will help to determine the timing of the next survey. We were also informed that the Board may consider conducting a diversity and inclusion survey once the agency-wide survey results have been thoroughly analyzed. These efforts will allow for trend analyses on the success of diversity initiatives as well as workplace inclusion.

60. U.S. Government Accountability Office, *Diversity Management: Expert-Identified Leading Practices and Agency Examples*, GAO-05-90, January 14, 2005.

We also noted that in 2013, two divisions independently conducted employee satisfaction surveys to obtain their employees' perspective on the particular division's work environment. Each survey contained one question specifically related to diversity and inclusion.

Although the Board did not conduct an agency-wide employee satisfaction survey in 2011, 2012, or 2013, ER offered separating employees the opportunity to voluntarily complete an electronic exit survey and participate in a face-to-face exit interview. ER collected the data and interview responses and prepared aggregate separation information for reporting in the HR section's internal annual report.

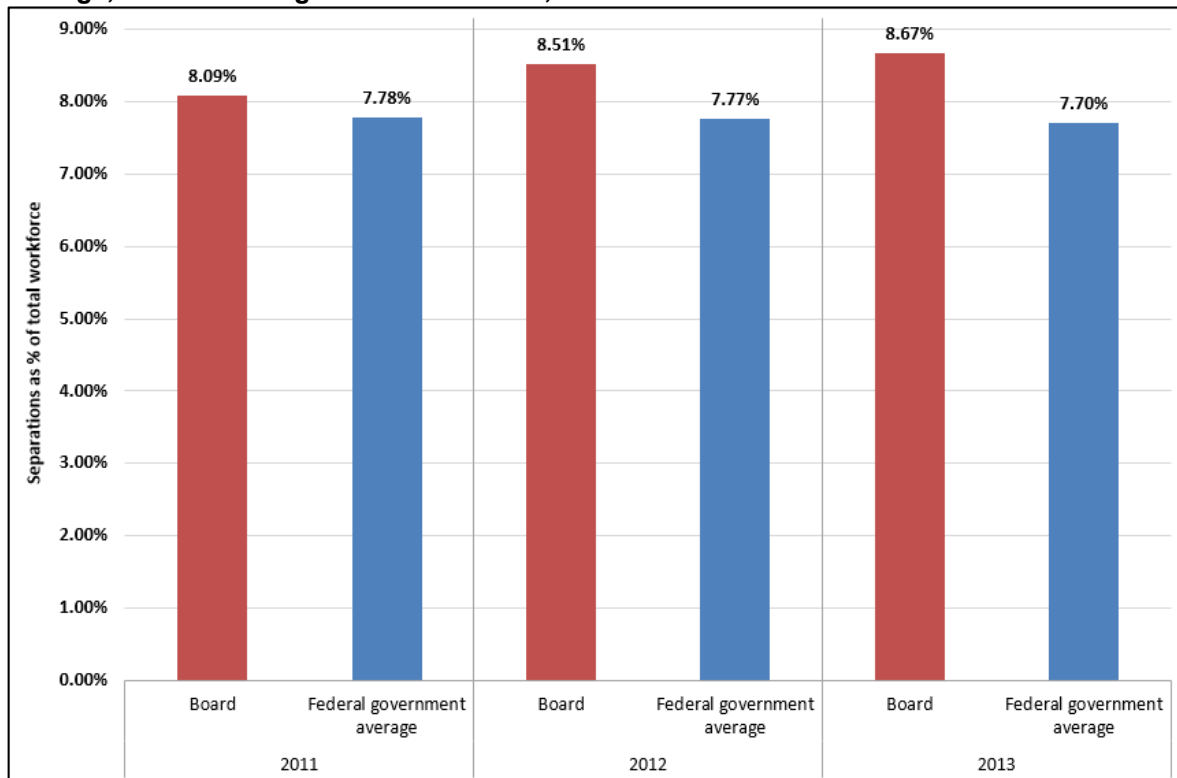
Demographic Statistics

Separations

We reviewed data for employees leaving the Board. Generally, the rate at which employees left Board employment was consistent with federal executive agencies during 2011–2013 (figure 8).⁶¹

61. The federal government average for separations was obtained from OPM's FedScope, which is a database that includes information on permanent employees who left the federal executive service (excluding the U.S. Postal Service). FedScope data are recorded on a fiscal-year basis; however, Board separation data are captured on a calendar-year basis. Therefore, an exact comparison could not be made. FedScope can be found at <http://www.fedscope.opm.gov>.

Figure 8: Separations (Including Retirements) From the Board and the Federal Government Average, as a Percentage of the Workforce, 2011–2013^a



Source: OIG analysis of Board-provided data and OPM's FedScope data.

^aOPM's FedScope data, which we used as a benchmark, are recorded on a fiscal-year basis; however, Board separation data are captured on a calendar-year basis rather than a fiscal-year basis. Both FedScope and Board separation data include retirements.

We analyzed the demographics of employees leaving Board service for reasons other than retirement. In 2011, 117 Board employees, or approximately 5 percent of the workforce, separated for reasons other than retirement. In 2012 and 2013, there were 139 and 138 nonretirement separations, respectively, accounting for approximately 6 percent of the workforce in both years.

Research assistants are considered permanent employees during their two-year tenure at the Board. Excluding research assistant separations, the Board's annual separation rate decreases by an average of 1.71 percent over the three years.

From 2011 through 2013, the number and percentage of female employees leaving Board service for reasons other than retirement remained relatively steady. Fifty-three female employees left the Board in 2011 and again in 2012, and 49 female employees left the Board in 2013. These separations represented 4.68 percent to 5.34 percent of the total female workforce.

With respect to race/ethnicity:

- In 2011, 12 Black/African American employees separated; in 2012, 20 Black/African American employees separated; and in 2013, 12 Black/African American employees separated. These separations represented 2.09 percent to 3.49 percent of the Black/African American workforce.
- In 2011, 16 Asian employees separated; in 2012, 13 Asian employees separated; and in 2013, 14 Asian employees separated. These separations represented 4.39 percent to 6.13 percent of the Asian workforce.
- In 2011, 4 Hispanic/Latino employees separated; in 2012, 5 Hispanic/Latino employees separated; and in 2013, 9 Hispanic/Latino employees separated. These separations represented 4.65 percent to 9.38 percent of the Hispanic/Latino workforce.
- In 2011, 83 White employees separated; in 2012, 98 White employees separated; and in 2013, 99 White employees separated. These separations represented 6.72 percent to 7.63 percent of the total White workforce.

Additional information on nonretirement separations by sex, race/ethnicity, and age can be found in appendix H.

The Board Has Begun Providing Employee Exit Survey Statistics to Divisions

Employees who separated from the Board are given the opportunity to voluntarily complete an exit survey and, separately, to participate in an exit interview. HR reported aggregate employee exit data for employees who separated in 2011 and 2012 in its 2013 annual report for its internal use; the aggregate data were provided to divisions only on request. For employees who separated in 2013, the aggregate employee exit data in HR's annual report were distributed to Board divisions in May 2014. The 2015 publication that will reflect 2014 aggregate employee exit data was being compiled at the time of our audit.

GAO's *Diversity Management: Expert-Identified Leading Practices and Agency Examples* suggests that one leading practice is to use quantitative and qualitative data derived from interviews, focus groups, and surveys to identify employee perceptions of the work environment and culture. Over time, trends in responses can help an organization assess progress in achieving organizational goals and objectives.

We noted that specific diversity and inclusion issues did not emerge in HR's annual reports; however, exit interview narratives documented that the most favorable aspects of working at the Board were colleagues, employee benefits, and work schedules. Interviewees indicated that the least favorable aspects included workload pressures, dissatisfaction with management, and frustration with having several layers of review of work and not being able to make decisions at lower levels of the organization. Board divisions can benefit from having access to agency-wide employee exit statistics and exit interview responses regardless of whether the division had

employees who separated, as that information may help inform the Board's continued efforts related to diversity and inclusion.

The Office of Diversity and Inclusion

The OD&I's mission is to ensure equal opportunity for all persons and to promote diversity relating to the Board's initiatives to employ, manage, and retain its human capital. This section discusses the OD&I's compliance with applicable provisions of the Dodd-Frank Act, the Board's application of the EEOC's MD-715 requirements, and the Board's compliance with provisions of the No FEAR Act as set forth in the Board's employment rules. It also presents the OD&I's organizational structure.

We found that the Board could benefit from finalizing its diversity strategic plan. We also found that the Board should formalize standards for equal employment opportunity and racial, ethnic, and gender diversity of the workforce and the senior management of the agency and ensure that No FEAR Act training is offered on a regular basis. In addition, we noted that the OD&I could enhance its communication to divisions on EEO matters and diversity initiatives. Finally, the OD&I should strengthen its internal controls for data collection and processing for MD-715 reporting.

Related Laws and Regulations

The Dodd-Frank Act required the Board to establish an OMWI. To satisfy this requirement, the Board established the OD&I in January 2011. The OD&I houses the preexisting EEO function; the Diversity and Inclusion section, which is responsible for programs for minorities, women, and other employees at the Board; and OMWI, which is responsible for implementing the applicable provisions of the Dodd-Frank Act related to financial education, supplier diversity, and regulated entities. The Director of the OD&I reports to the Board's Administrative Governor and to the Chief Operating Officer.⁶²

The Board follows the EEOC's MD-715, which includes general reporting requirements that help an agency identify and eliminate any barriers that impede free and open competition in the workplace and prevent individuals of any racial or national origin group or either sex from realizing their full potential. As part of its annual MD-715 reporting, the Board reports its identification of barriers to equal employment opportunity and its plans to eliminate such barriers.

In addition, the Board has adopted provisions of the No FEAR Act and its implementing regulations⁶³ that require agencies to (1) post quarterly, on their public website, certain summary statistical data relating to EEO complaints filed under title 29, part 1614, of the *Code of Federal Regulations* and (2) notify current and former employees and applicants for federal employment of their rights and protections against discrimination. The No FEAR Act also requires each agency to develop a written plan for training all its employees, including supervisors and

62. The Federal Reserve Act authorizes the Board to delegate any of its functions, other than those pertaining to rulemaking or pertaining principally to monetary and credit policies, to members or employees of the Board, among others. As such, the Chairman delegated the responsibility for the OD&I to the Chief Operating Officer, who in turn delegated it to the Director of the OD&I.

63. 5 C.F.R. part 724.

managers. In response to the No FEAR Act's requirements, the Board developed the *No FEAR Act Written Training Plan*, which outlines how the Board will satisfy the No FEAR Act requirements. The plan includes, but is not limited to, providing training to all new Board employees within 90 days of employment and refresher training to Board employees.

The EEOC produces an *Annual Report on the Federal Workforce* that includes, among other data, information on federal EEO complaints and alternative dispute resolution activities. Similar to other federal agencies, the Board reports this information on the EEOC's Annual Federal Equal Employment Opportunity Statistical Report of Discrimination Complaints. Federal agency administrators upload data into the EEOC's Federal Sector EEO Portal, which is only accessible to authorized federal agency administrators.

Structure of the OD&I

An OD&I official explained that the OD&I's structure is based on its three functions:

- **Diversity and Inclusion**—OD&I staff members are responsible for the diversity and inclusion aspects of certain programs, such as recruiting, and for generating workforce trend data and providing this information to 13 of the 15 Board divisions.⁶⁴ In addition, a Diversity and Inclusion staff member is assigned as an official liaison to 12 Board divisions.⁶⁵ This section of the OD&I fulfills the Dodd-Frank Act requirements concerning minorities and women.
- **Equal Employment Opportunity**—OD&I staff members are responsible for handling the Board's EEO complaints and relevant reporting requirements, such as the annual MD-715 and No FEAR Act reports and the EEOC's Annual Federal Equal Employment Opportunity Statistical Report of Discrimination Complaints. In addition to EEO responsibilities, EEO staff members assist the Diversity and Inclusion section with generating workforce trend data and providing the data to the remaining two Board divisions, as well as assisting with diversity and inclusion programs. In addition, an EEO staff member is assigned as an official liaison to these two Board divisions.
- **OMWI**—OD&I staff members are responsible for activities related to the financial education of the community, such as minority and youth groups; the diversity of the Board's suppliers; and the standards for assessing the policies and practices of the entities supervised by the Federal Reserve Banks under delegated authority from the Board. These specific practices do not directly relate to diversity within the Board and are not addressed in this report.

Compliance With Dodd-Frank Act Requirements

We assessed the OD&I's activities for compliance with 10 requirements of section 342 of the Dodd-Frank Act that pertain to our audit objective. We found that the OD&I complies with 9 of the 10 requirements and partially complies with 1 requirement, as shown in table 8.

64. The OIG is included in the 15 divisions.

65. The OD&I does not provide a liaison to the Office of the Chief Operating Officer because the OD&I is part of that division.

Table 8: The Board's Compliance With Relevant OMWI Requirements of Section 342 of the Dodd-Frank Act^a

Relevant ^a OMWI requirements applicable to the Board	Fully	Partially
The Director of each Office shall be appointed by, and shall report to, the agency administrator.	✓	
Each Director shall develop standards for equal employment opportunity and the racial, ethnic, and gender diversity of the workforce and senior management of the agency:		✓
Each Office shall submit to Congress an annual report regarding the actions taken by the agency and the Office pursuant to this section, which shall include		
the successes achieved and challenges faced by the agency in operating minority and women outreach programs	✓	
the challenges the agency may face in hiring qualified minority and women employees and contracting with qualified minority-owned and women-owned businesses; and	✓	
any other information, findings, conclusions, and recommendations for legislative or agency action, as the Director determines appropriate.	✓	
Each agency shall take affirmative steps to seek diversity in the workforce of the agency at all levels of the agency in a manner consistent with applicable law. Such steps shall include		
recruiting at historically black colleges and universities, Hispanic-serving institutions, women's colleges, and colleges that typically serve majority minority populations;	✓	
sponsoring and recruiting at job fairs in urban communities;	✓	
placing employment advertisements in newspapers and magazines oriented toward minorities and women;	✓	
partnering with organizations that are focused on developing opportunities for minorities and women to place talented young minorities and women in industry internships, summer employment, and full-time positions;	✓	
any other mass media communications that the Office determines necessary.	✓	

Source: OIG analysis of the Board's *Annual Report to Congress on OMWI*, OIG interviews with OMWI officials, Board policies and procedures, and section 342 of the Dodd-Frank Act (12 U.S.C. § 5452).

^aWe only analyzed the Dodd-Frank Act requirements that pertained to the scope of our audit.

The OD&I submitted annual reports to Congress for 2011, 2012, and 2013, which outlined its activities, successes, and challenges. The OD&I focused on agency diversity issues by partnering

with the six Board employee advisory committees that deal with gender, race/ethnicity, and diversity.⁶⁶

In addition, Board officials indicated that the OD&I participates in divisions' recruiting efforts and in national diversity recruiting events by sharing the costs associated with career fairs and attending affinity group⁶⁷ engagements hosted by professional minority organizations. We also noted that the OD&I is involved with the hiring of Board officers, as detailed in the Recruiting and Hiring section of this report. However, the Director of the OD&I has not formalized standards for equal employment opportunity and the racial, ethnic, and gender diversity of the workforce and the senior management of the agency.

Finding: The Board Needs to Finalize Its Diversity and Inclusion Strategic Plan

We found that the Board has not finalized its diversity and inclusion strategic plan. Board officials, including those within the OD&I, were in the process of developing this plan during our audit. The Board's *Strategic Framework 2012–15* states,

OD&I is working with Human Resources and Procurement staff at the Board to (1) ensure a commitment to recruit and retain a staff that is diverse and inclusive and (2) develop standards and procedures to ensure, to the extent possible, the fair inclusion and utilization of minority and women-owned businesses in the Board's procurements.

The Board is developing its 2016–2019 strategic plan, which will include a component on diversity.

GAO's *Diversity Management: Expert-Identified Leading Practices and Agencies Examples* states that an agency's diversity strategy and plan should be developed and aligned with the organization's overall strategic plan. Further, GAO reports that one expert suggests that organizations link diversity to their overall strategic plan to ensure that diversity initiatives are not viewed as extras that could be vulnerable to cuts, for example, when funds are tight. An agency that incorporates diversity as part of its strategic plan can translate its diversity aspirations into a tangible practice and can foster a culture change that supports and values differences.

Implementation of a diversity and inclusion strategic plan tied to the Board's strategic plan would promote a culture of diversity and inclusion in achieving the Board's goals. The plan can also provide a base from which progress can be measured on the Board's diversity and inclusion objectives.

66. The six employee advisory groups are (1) Advisory Committee for People with Disabilities; (2) African American Employees Advisory Committee; (3) Asian Employees Advisory Committee; (4) FRB Woman's Program Advisory Committee; (5) Hispanic Employees Advisory Committee; and (6) Lesbian, Gay, Bisexual, Transgender, and Allies Employees Advisory Committee.

67. An *affinity group* is a group formed around a shared interest or common goal, to which individuals formally or informally belong.

Recommendation

We recommend the Director of the OD&I

5. Finalize and implement the Board's diversity and inclusion strategic plan and ensure that
 - a. the plan incorporates the agency's overall diversity and inclusion objectives.
 - b. key elements of the plan are included in the Board's 2016–2019 agency strategic plan.

Management's Response

The Board concurs with our recommendation. In its response, the Board states that it will finalize the diversity and inclusion strategic plan. In addition, the Director of OMWI is a member of the Board's 2016–2019 strategic plan workgroup and is ensuring that the key elements of the diversity and inclusion plan are included.

OIG Comment

The actions described by the Board appear to be responsive to our recommendation. We plan to follow up on the Board's actions to ensure that the recommendation is fully addressed.

Finding: The Board's Standards for Equal Employment Opportunity and Racial, Ethnic, and Gender Diversity Have Not Been Formalized

We found that the Director of the OD&I has not formalized the OD&I's standards for equal employment opportunity and racial, ethnic, and gender diversity of the workforce and the senior management of the agency, as required by section 342(b)(2)(A) of the Dodd-Frank Act. Although the OD&I's diversity efforts are guided by federal government EEO requirements, it has not formalized a set of standards as required by the Dodd-Frank Act.

As a benchmarking exercise, we reviewed the standards of another financial regulatory agency's OMWI that were documented in the agency's overall diversity and inclusion strategic plan. In developing standards, the OMWI used the agency's strategic plan, annual performance budget information, the *Federal Equal Employment Opportunity Recruitment Plan*,⁶⁸ and the MD-715. Following best practices, the financial regulatory agency's diversity and inclusion strategic plan contains standards that include the agency's attestation of, commitment to, and definition of diversity and inclusion, as well as the agency's goals, implementation measures, priorities, and actions to satisfy Dodd-Frank Act requirements and to enhance diversity and inclusion within the agency.

68. The *Federal Equal Employment Opportunity Recruitment Plan* provides statistical data on employment in the federal workforce and highlights human capital practices that federal agencies are using to recruit, develop, and retain talent.

Since 1995 and prior to the creation of the OD&I, the Board sponsored EEO and affirmative action programs that included promoting diversity in its employment practices. The OD&I considers elements of these legacy programs, as well as the EEOC guidance used for MD-715 reporting, as its Dodd-Frank Act–required standards.

Formalizing standards can increase the transparency of the OD&I’s diversity processes and practices and the way in which it plans to meet its internal objectives, monitor its progress, and meet its long-term goals. Without formalized standards, the Board is only partially compliant with the Dodd-Frank Act and may be limited in its ability to evaluate its effectiveness in promoting equal employment opportunity and diversity within its workforce and senior management.

Recommendation

We recommend that the Director of the OD&I

6. Formalize the standards the OD&I relies on for equal employment opportunity and the racial, ethnic, and gender diversity of the workforce and the senior management of the agency.

Management’s Response

The Board concurs with our recommendation. In its response, the Board states that it plans to formalize the standards the OD&I relies on for equal employment opportunity and the racial, ethnic, and gender diversity of the workforce and the senior management of the agency, which will be included in the diversity and inclusion strategic plan.

OIG Comment

The actions described by the Board appear to be responsive to our recommendation. We plan to follow up on the Board’s actions to ensure that the recommendation is fully addressed.

Finding: The Board’s EEO and Diversity Training Is Not Provided on a Regular Basis

We found that the OD&I does not provide training related to EEO and diversity to all employees on a regular basis. No FEAR Act training is required every two years. The Board provided No FEAR Act training in 2011; however, the OD&I did not retain any records pertaining to this training. No FEAR Act training, as described in the Board’s *No FEAR Act Written Training Plan*, was not provided in 2013.

The OD&I is responsible for providing EEO, No FEAR Act, and diversity training. Internal and external guidance related to administering these trainings includes the following:

- The EEOC’s MD-715 instructions identify the basic elements necessary to create and maintain a model EEO program. One element in the guidance advocates that all employees receive information about the EEO program through training on the EEO process and the protections afforded to employees, related policy statements, and reasonable accommodation procedures.
- GAO’s *Diversity Management: Expert-Identified Leading Practices and Agencies Examples* states that diversity training can help an organization’s employees increase their awareness and understanding of diversity as well as help employees develop skills to promote communication and increase productivity. Such training can provide employees with an awareness of individual differences—including cultural, work style, and personal presentation—and an understanding of how diverse perspectives can improve organizational performance. The GAO report also states that the effectiveness of diversity training efforts should be evaluated to help decisionmakers manage resources and help agencies improve results.
- The Board’s *No FEAR Act Written Training Plan*, developed in response to OPM’s July 2006 final rule implementing the No FEAR Act training requirements, outlines how the Board will satisfy the No FEAR Act requirements. The act requires federal agencies to train all new employees within 90 days of hire and provide training to all employees every two years. Training must inform employees of their rights and remedies under the federal antidiscrimination laws.

An OD&I official informed us that both EEO and diversity training were included in the No FEAR Act training that was required for all Board employees in 2014. In addition, the OD&I official indicated that the office provided customized EEO and diversity training based on trends or issues observed in particular divisions. Division officials we spoke with expressed an interest in having more guidance on the EEO complaint handling process.

In 2011, a Board contractor provided No FEAR Act training. According to an OD&I official, the vendor retained records of attendance using its own identification system and OD&I officials verified employees’ completion of the training by matching Board employee identification numbers to those in the vendor’s identification system. However, the OD&I did not retain records of this verification or of the training modules that were taught. The contract ended in 2011, and similar training was not offered Boardwide in 2013.

Providing No FEAR Act training—which includes both EEO and diversity and inclusion elements—on a regular basis can benefit the Board. For example, training on equal employment opportunity can inform employees who may wish to file EEO complaints and managers who handle such complaints, and it can assist the Board in establishing a model EEO program. Further, training on diversity and inclusion can help employees to understand how diverse perspectives can improve organizational performance. To ensure that the training accomplishes these goals, the Board will need to evaluate the effectiveness of the training offered and take steps to make improvements, as needed.

Management Actions

On October 27, 2014, the OD&I offered a web-based No FEAR Act training that was mandatory for all employees. Additional training modules were provided for supervisors, managers, and officers.

Recommendation

We recommend that the Director of the OD&I

7. Ensure that No FEAR Act training
 - a. is offered on a regular basis.
 - b. is tailored to the Board and includes EEO and diversity and inclusion topics in accordance with the Board's *No FEAR Act Written Training Plan*.
 - c. is evaluated for effectiveness and that any improvements identified are incorporated into the training as needed.
 - d. attendance records are retained.

Management's Response

The Board concurs with our recommendation. In its response, the Board states that it will continue to provide No FEAR Act training on a regular basis. In addition, it will explore methods to evaluate the training for effectiveness and to incorporate improvements as needed. Further, the Board will consider including provisions in its contract for the training that would require the vendor to provide the Board with evidence of employees' completion of the training.

OIG Comment

The actions described by the Board are generally responsive to our recommendation. While the Board will explore methods to evaluate the No FEAR Act training for effectiveness, we encourage the Board to tailor the program to the Board's workplace needs, as necessary. We also encourage the Board to retain evidence of employees' completion of the No FEAR Act training. We plan to follow up on the Board's actions to ensure that the recommendation is fully addressed.

Finding: The OD&I Can Improve Its Communication to Divisions on EEO Matters and Diversity Initiatives

Board division officials reported that they experienced varying levels of interaction with and guidance from the OD&I. Specifically, four divisions reported positive experiences with the

OD&I in regard to its EEO function and its diversity and inclusion activities. However, the remaining divisions communicated a variety of concerns that indicate perceived limits to the OD&I's value and impact, including not understanding the function of components within OD&I, the limited assistance available to managers and officers with respect to the EEO complaint process, and the OD&I's minimal involvement during the recruiting and hiring of specialized positions.

Further, one division expressed that it would like the OD&I to address developmental issues for women and minorities. Additionally, another division stated that it would like the OD&I to hold annual or biannual meetings with division management to, among other things,

- discuss Boardwide expectations and any planned diversity initiatives
- educate managers and officers on the Board's EEO program and expectations
- discuss how EEO counselors can assist managers and officers

The OD&I's objectives are to provide guidance to Division Directors, managers, and supervisors to help them resolve EEO matters as they arise and to participate in planning and implementing the divisions' EEO and diversity programs, including talent management, employee coaching, career development, recruitment, outreach, intern programs, and leadership development. However, these objectives do not fully address OD&I's roles and responsibilities, which will assist divisions in understanding the function of components within the OD&I.

According to an OD&I official, prior to the Dodd-Frank Act enactment, the EEO section and the Diversity and Inclusion section conducted outreach to the divisions. Although the Board established the OD&I to include an OMWI function in response to the Dodd-Frank Act requirements, according to the OD&I official, the OD&I has not significantly modified its approach because these activities were already being covered prior to the enactment of the Dodd-Frank Act.

We believe that the OD&I can further its objectives by enhancing communications with all Board divisions on EEO and diversity and inclusion efforts. This approach can also assist the OD&I in aligning its efforts to its objectives and better enable the office to ensure equal opportunity for all persons and to promote diversity relating to the Board's initiatives to employ, manage, and retain its human capital.

Management Actions

We were informed that the OD&I is developing a quarterly reporting tool for each division. The tool's purpose is to support the Board's strategic objectives and commitment to attract, hire, develop, promote, and retain a highly diverse workforce and to show each division's progress. The OD&I plans to implement this tool during the second quarter of 2015. The sharing and discussion of the quarterly reporting tool results with the divisions will provide the OD&I with an opportunity to clarify its roles and responsibilities and provide guidance and assistance to divisions.

Recommendations

We recommend that the Director of the OD&I

8. Document the roles and responsibilities of the OD&I and distribute them to all Board divisions.
9. Partner with divisions to cooperatively develop strategies and initiatives that will help advance diversity and inclusion throughout the Board.
10. Work with divisions to finalize and implement the quarterly reporting tool and establish a schedule to communicate the results for each division to the respective Division Director. The quarterly reporting tool should include diversity and inclusion activities for each division with clear objectives and corresponding measures.

Management's Response

The Board concurs with our recommendations. In its response, the Board states that it will take steps to increase the divisions' awareness of the OD&I's roles and responsibilities. In addition, the Board plans to implement a new quarterly reporting tool for divisions that will establish specific diversity and inclusion strategies and initiatives.

OIG Comment

The actions described by the Board are generally responsive to our recommendations. While we acknowledge that the OD&I's objectives are updated annually as part of the Board's budget process, the stated objectives do not fully address the OD&I's roles and responsibilities. A more comprehensive document may assist divisions in understanding the functions of the components within the OD&I. We plan to follow up on the Board's actions to ensure that the recommendations are fully addressed.

Finding: The OD&I's Controls for MD-715 Data Collection Should Be Strengthened

We analyzed the workforce data in the Board's human resources database and had difficulty reconciling the annual aggregated data to the information reported on the MD-715. We determined that the OD&I's process to filter the data used for the MD-715 report resulted in a limited overstatement of the number of promotions, separations, and new hires. Specifically, we found 20 duplicate entries, representing less than 1 percent of the 2,600 total entries in the promotions, separations, and new hires data in the Board's MD-715 report for 2011, 2012, and 2013. Although we identified a small number of errors in the MD-715 reporting, additional controls would help reduce the risk of significant errors occurring in the future.

Establishing appropriate internal controls helps agencies improve organizational effectiveness and accountability. GAO's *Standards for Internal Controls in the Federal Government* states that effective communications within the organization are needed to carry out internal controls and

other responsibilities. In addition to internal communications, agencies should ensure that there are adequate means of communicating with, and obtaining information from, stakeholders. Moreover, effective information management is critical to achieving useful and reliable communication of information.

Further, National Institute of Standards and Technology Special Publication 800-53, Revision 4, *Security and Privacy Controls for Federal Information Systems and Organizations*, outlines mandatory information security controls for federal information systems, including in the areas of data output reconciliation and error correction.

The OD&I's process for reporting certain data in the MD-715 report consists of querying, downloading, and filtering data provided by HR. During the 2011–2013 period, we found that the data collected were not validated against the employee electronic records stored in HR. We believe that the duplicate entries resulted from the lack of mutual understanding between the OD&I and HR of the underlying data needed to complete a line item in the MD-715 report and the lack of internal controls in the OD&I to validate the data. We noted fewer duplicate entries in 2013 due to better collaboration between the OD&I and HR.

While we understand that the error rate was less than 1 percent, a documented data gathering methodology can facilitate consistent reporting and reduce the risk of reporting errors, such as the duplicate entries noted in our analysis. During our audit, we were informed that the OD&I will hire a data specialist to assist with the MD-715 reporting process.

Recommendation

We recommend that the Director of the OD&I and the Director of the Management Division

11. Strengthen internal controls for reporting MD-715 data, to include
 - a. documenting the methodology for extracting and filtering the appropriate data.
 - b. verifying the accuracy and completeness of the data in the MD-715 report prior to submission.

Management's Response

The Board concurs with our recommendation. In its response, the Board states that it agrees that it is always useful to take steps to ensure that data are reported as completely and accurately as possible, and the Board states that it will take the recommended steps to enhance the data reporting process.

OIG Comment

The actions described by the Board are generally responsive to our recommendation. We plan to follow up on the Board's actions to ensure that the recommendation is fully addressed.

Summary of Findings

According to GAO, an agency with a diverse workforce that includes minorities and women in key positions benefits from multidisciplinary knowledge and skills that can help the organization better accomplish its mission and goals and increase innovation.⁶⁹ An agency that effectively manages its employees provides for equal opportunities, which is essential to attracting, developing, and retaining the most qualified workforce. GAO further states that when an organization's top leaders demonstrate the importance of diversity and inclusion initiatives, a clear message is sent about the organization's commitment to diversity management.

Prior to the enactment of the Dodd-Frank Act, which required the Board to establish an OMWI, the Board had established diversity and inclusion practices, followed the requirements of the EEOC's MD-715, and adopted provisions of the No FEAR Act. After the period under review, we noted that the Board took actions to change certain practices, including, but not limited to, adopting a more standardized process for recruiting officer positions; sharing a non-EEO trend statistics report with all divisions; providing mandatory, web-based No FEAR Act training; and developing a quarterly reporting tool to show each division's progress in supporting the Board's strategic objectives and commitment to attract, hire, develop, promote, and retain a highly diverse workforce.

Our audit results identified several opportunities for the Board to enhance its diversity and inclusion efforts. Such improvements may enable the Board to further realize the benefits of a diverse workforce and reaffirm its commitment to diversity and inclusion in the workplace. Our recommendations address issues in the following four areas:

Data Analysis and Reporting—The Board can enhance its efforts to monitor and analyze certain types of workforce data that can be used to identify diversity and inclusion trends. For example, the Board could more effectively collect demographic data on applicants for economist, research assistant, and officer positions to gain a better understanding of the diversity within applicant pools for these professions. Additionally, there is an opportunity for the Board to conduct additional analysis of its employees' performance ratings to identify any patterns that may relate to diversity and inclusion or to identify any differences that may indicate bias. We also noted that in areas with available statistics, such as non-EEO matters, the Board can provide this information on a regular basis to all divisions. Further, the Board can strengthen its controls for MD-715 data collection.

Communication and Training—The Board can benefit from communicating the roles and responsibilities for carrying out EEO and diversity and inclusion activities. The Board is developing a quarterly reporting tool to evaluate each division's progress toward achieving the Board's diversity and inclusion goals. This tool could be used to enhance communication between the divisions and the OD&I as well as the divisions' understanding of the OD&I's

69. U.S. Government Accountability Office, *Diversity Management: Trends and Practices in the Financial Services Industry and Agencies after the Recent Financial Crisis*, GAO-13-238, April 2013.

functions. The Board can also benefit from requiring No FEAR Act training on a regular basis, include both EEO and diversity components in the training, and maintain internal records of employee's completion of training. No FEAR Act training should be tailored to the agency and evaluated to determine its effectiveness. Moreover, regular, mandatory training can be used to increase organizational efforts to inform and educate management and staff and provide employees with an understanding of how diverse perspectives can improve organizational performance. Further, regular No FEAR Act training can facilitate the appropriate handling of EEO matters by management and staff.

Full Compliance With Relevant Dodd-Frank Act Requirements—The Board believes that elements of its legacy EEO program satisfy section 342(b)(2)(A) of the Dodd-Frank Act—which requires agencies to develop standards for equal employment opportunity and racial, ethnic, and gender diversity of the workforce and the senior management of the agency—and therefore has not formalized these standards. Formalizing standards can increase the transparency of the Board's diversity processes and practices and the way in which it plans to meet its internal objectives, monitor its progress, and meet its long-term goals. Additionally, with formalized standards, the Board can be in full compliance with the Dodd-Frank Act requirements.

Diversity Strategic Planning—The Board should finalize its diversity strategic plan and ensure that the Board's diversity and inclusion objectives are incorporated into the agency's broader strategic plan. As indicated by best practices, incorporating diversity and inclusion objectives into the agency-wide strategic plan will assist in ensuring that diversity and inclusion are viewed as essential to meeting the Board's strategic goals. Implementation of a diversity and inclusion strategic plan tied to the Board's strategic plan would promote a culture of diversity and inclusion in achieving the Board's goals. The plan can also provide a base from which progress can be measured on the Board's diversity and inclusion objectives.

It is important to note that while our report focuses on the Board's specific diversity and inclusion initiatives and human resources-related activities, initiatives and activities that are beyond the scope of our review also contribute to enhancing diversity and inclusion principles.

Appendix A

Congressional Request Letter

JEB HENSARLING, TX, CHAIRMAN

United States House of Representatives
Committee on Financial Services
Washington, D.C. 20515

MAXINE WATERS, CA, RANKING
MEMBER

March 24, 2014

Inspector General Mark Bialek
Board of Governors of the Federal Reserve System
Office of Inspector General
20th and C Streets N.W.
Mail Stop 300
Washington, DC 20551

Dear Inspector General Bialek:

We write to request that the Office of the Inspector General (OIG) for the Board of Governors of the Federal Reserve System (FRS) review the agency's internal operations to determine whether any personnel practices have created a discriminatory workplace or otherwise systematically disadvantaged minorities from obtaining senior management positions.

Section 342 of the Dodd-Frank Wall Street Reform and Consumer Protection Act established an Office of Minority and Women Inclusion (OMWI) at most of the federal financial regulatory agencies, responsible for matters relating to diversity in management, employment, and business activities. Despite this statutory mandate, the Government Accountability Office (GAO) concluded in a report released last year that management-level representation of minorities and women among federal financial agencies and Federal Reserve Banks has not changed substantially from 2007 through 2011. In fact, across all federal financial regulators, agency representation of minorities was as low as 6 percent and dropped as low as zero percent at one of the Reserve Banks. In light of these findings and the concerns raised by employee performance evaluations at the Consumer Financial Protection Bureau (CFPB), we believe the OIG should work in cooperation with Federal Reserve System's OMWI Director to assess current personnel practices and make recommendations necessary to ensure full compliance with the law.

The 2013 GAO report, entitled "Trends and Practices in the Financial Industry and Agencies after the Recent Financial Crisis," documented the extremely poor representation of women and minorities in leadership positions within the financial services industry and among federal financial regulators. According to GAO, industry representation of minorities in 2011 was higher in lower-level management positions – approximately 20 percent – as compared to about 11 percent of senior-level manager positions.

While public attention is currently and justifiably focused on the CFPB, the most recent OMWI reports suggest the disparities impeding internal upward mobility for minorities may be endemic throughout all the agencies regulating the financial services industry. According to the Treasury Department's 2013 OMWI report, among its senior executive management, 86 percent are white men, compared to 7 percent Black men, 4 percent Hispanic men, and 3 percent Asian men. Among the agency's GS-15 employees, which serves as a pipeline to senior level management, white men are once again overrepresented at 86 percent, compared to 6 percent Black men, 2 percent Hispanic men, and 6 percent Asian men.

Inspector General Mark Bialek
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March 24, 2014

At the Federal Reserve, white men represent 50 percent of executive senior level managers, compared to just 28.7 percent represented by white women. Along ethnic categories, black and Hispanic men represent, respectively, roughly 5 percent and 1 percent of executive senior level managers. Black women represent roughly 6 percent and Hispanic women represent nearly 2 percent of senior managers.

According to the most recent information from the GAO, at the National Credit Union Administration (NCUA), whites represent 88 percent of senior level management positions, compared to 4 percent represented by blacks and 4 percent by Hispanics. At the Office of the Comptroller of the Currency (OCC), whites represent 82 percent of senior level managers, compared to 9 percent black and 5 percent Hispanic. Whites represent 89 percent of senior level management positions at the Securities and Exchange Commission, compared to 2 percent black and 5 percent Hispanic. Minorities appear to fair best at the Federal Housing Finance Agency, where whites represent 76 percent of senior level management positions, compared to 16 percent black and 8 percent Hispanic. However, more comprehensive analysis is still needed from the agency to fully assess the racial and gender employment of minorities in senior positions beyond the GAO's limited information.

Accordingly, we request that the OIG examine any employee complaints, formal or informal, related to personnel practices, workplace policies and the findings from any employee satisfaction surveys, whether conducted by the Federal Reserve System or an outside entity. If the OIG identifies any individuals or groups of individuals who have exhibited discriminatory behaviors or patterns of unfair or unequal treatment, we ask that the OIG provide recommendations about appropriate actions, including remedial training or removal from employment with the agency. Furthermore, we request that the OIG assess the agency's OMWI operations, and ensure corrective actions are taken within the agency with regard to employee compensation, rating systems, retention, and promotion of women and minorities.

Sincerely,

Appendix B

Scope and Methodology

The overall objective for this audit was to assess the Board's human resources–related functions and other efforts to provide for equal employment opportunities, including equal opportunity for minorities and women to obtain senior management positions, and for racial, ethnic, and gender diversity in the workforce. The scope of our audit included the Board's human resources–related operations affecting diversity and inclusion from January 2011 through December 2013. We also considered any changes that occurred during 2014.

We gained an understanding of the Board's human resources–related functions within our scope, which include recruiting and hiring, performance management, promotions and succession planning, complaints, and employee satisfaction surveys, by reviewing relevant Board policies and procedures and interviewing Board divisions responsible for performing these functions. Specifically, we met with officials from the OD&I and HR, as well as representatives from the economics-related divisions and the Legal Division, to discuss topics such as key personnel, roles and responsibilities, systems and applications, and policies and procedures.

We identified Board policies and procedures related to recruiting and hiring, employee complaints, and performance management, as well as guidance and best practices related to diversity and inclusion. We reviewed relevant Board policies and procedures to identify internal controls that may prevent or detect bias or discrimination. The Board has a limited number of policies related to its human resources–related functions. As a result, we selected two internal controls related to preventing or detecting discrimination or bias in the performance management process to conduct compliance testing with policies and procedures.

We collected and analyzed data from HR to identify trend statistics related to the Board's workforce, recruiting and hiring, performance management, promotions, and separations. In addition, we analyzed data related to informal and formal EEO complaints and non-EEO complaints. We assessed the reliability of all the data we obtained to ensure that they were sufficiently reliable for the purposes of our analysis. As part of our data reliability evaluation, we observed the Board extract the data it provided us from the Board's centralized database of record for all of the human resources–related activities except for EEO complaints. We also obtained screenshots of the queries it used to extract the data. In the case of EEO complaints, we did not verify this information, as the Board informed us of the potential for privacy issues associated with the OIG's extracting or observing the extraction of these data; however, officials provided us with the summary data, and we attempted to use publicly available sources to verify the cases the Board provided us. After we determined that the data were reliable for the purposes of our audit, we analyzed the data based on sex, race/ethnicity, and age, where possible.

We examined workforce demographics agency-wide and by pay grade category. We also compared the workforce demographics data to the data from the ACS published by the U.S. Census Bureau, which serves as the primary external benchmark for comparing the sex and race/ethnicity composition of an organization's workforce. We examined the demographics of the applicants processed during each phase of the Board's hiring process.

For performance management, we coordinated with the four other federal financial regulatory agency OIGs that had received a similar congressional request to use the services of an external consulting firm. The external consulting firm analyzed, on an agency-wide basis, the Board's FY 2011, FY 2012, and FY 2013 performance ratings by gender, race/ethnicity, and age. The external consulting firm's analysis is provided in its entirety in appendix E of this report. In addition, we conducted an internal analysis of the performance ratings by division.

We analyzed data for career-ladder promotions, exit survey results, EEO complaints, non-EEO complaints, and Board separations. We assessed the Board's efforts (1) to respond to complaints or other potential indications of bias and (2) to increase diversity in management.

We evaluated the OD&I's role and involvement in monitoring (1) the impact of the Board's human resources-related policies on minorities and women and (2) the agency's efforts to increase diversity in senior management positions and within the agency. We reviewed documents and conducted interviews with OD&I officials to assess its efforts to respond to EEO complaints. We also reviewed documents, conducted interviews, and applied best practices to evaluate the OD&I's efforts as they relate to diversity and inclusion and the provision of training to management and staff. In addition, we reviewed Board documents and conducted interviews with OD&I officials to evaluate compliance with applicable sections of the Dodd-Frank Act.

Finally, we interviewed Board division officials to gain an understanding of the Board's challenges in achieving diversity throughout the agency and within senior management. Through these interviews, we sought to gain management's perspective on

- diversity challenges and strategies to enhance diversity and succession planning efforts for critical management positions
- division interactions with the OD&I
- the OD&I's role and involvement in monitoring the effect of the Board's human resources-related policies on minorities and women

We conducted our audit fieldwork from May 2014 to November 2014. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objective.

Appendix C

Workforce Data

The tables below provide a breakdown of permanent employees based on sex, race/ethnicity, and age for 2011, 2012, and 2013.

Table C-1: Permanent Employees, by Sex, Race/Ethnicity, and Age, 2011–2013, and Demographic Breakdown of ACS Data, 2006–2010

Permanent workforce demographics	2011		2012		2013		ACS data
	Number	% of total workforce	Number	% of total workforce	Number	% of total workforce	% of total
Total permanent workforce	2,187	100.00	2,279	100.00	2,353	100.00	100.00
Sex							
Female	992	45.36	1,021	44.80	1,047	44.50	47.21
Male	1,195	54.64	1,258	55.20	1,306	55.50	52.79
Race/Ethnicity							
White	1,235	56.47	1,285	56.38	1,322	56.18	67.05
Black/African American	567	25.93	573	25.14	573	24.35	11.34
Asian	261	11.93	287	12.59	319	13.56	4.82
Hispanic/Latino	86	3.93	95	4.17	96	4.08	14.58
Other ^a	38	1.74	39	1.71	43	1.83	2.21
Age							
Under 40	927	42.39	983	43.13	1,032	43.86	N/A
40 or older	1,260	57.61	1,296	56.87	1,321	56.14	N/A

Source: OIG analysis of Board-provided data and the Census Bureau's ACS data.

Note: Percentages may not total 100 due to rounding.

^aOther includes (1) Native Hawaiian or Other Pacific Islander (Not Hispanic or Latino), (2) American Indian or Alaska Native (Not Hispanic or Latino), (3) Two or More Races/Ethnicities (Not Hispanic or Latino), and (4) Not Specified (i.e., individuals who chose not to disclose demographic data).

Table C-2: Permanent Employees, Race/Ethnicity Distribution by Pay Grade Category, 2011–2013

Workforce by race/ethnicity and pay grade category	2011		2012		2013	
	Number	% of total workforce	Number	% of total workforce	Number	% of total workforce
Total permanent workforce	2,187	100.00	2,279	100.00	2,353	100.00
All others (FR-16–FR-25 and WE-41–WE-47)						
Asian	109	4.98	116	5.09	123	5.23
Black/African American	434	19.84	418	18.34	400	17.00
White	406	18.56	418	18.34	427	18.15
Hispanic/Latino	37	1.69	42	1.84	39	1.66
Other ^a	19	0.87	18	0.79	22	0.93
Total	1,005	45.95	1,012	44.41	1,011	42.97
Mid-level professionals (FR-26–FR-28)						
Asian	138	6.31	154	6.76	175	7.44
Black/African American	106	4.85	125	5.48	136	5.78
White	592	27.07	612	26.85	624	26.52
Hispanic/Latino	45	2.06	47	2.06	49	2.08
Other ^a	16	0.73	19	0.83	18	0.76
Total	897	41.02	957	41.99	1,002	42.58
Senior managers and officers (FR-29–00)						
Asian	14	0.64	17	0.75	21	0.89
Black/African American	27	1.23	30	1.32	37	1.57
White	237	10.84	255	11.19	271	11.52
Hispanic/Latino	4	0.18	6	0.26	8	0.34
Other ^a	3	0.14	2	0.09	3	0.13
Total	285	13.03	310	13.60	340	14.45

Source: OIG analysis of Board-provided data.

^aOther includes (1) Native Hawaiian or Other Pacific Islander (Not Hispanic or Latino), (2) American Indian or Alaska Native (Not Hispanic or Latino), (3) Two or More Races/Ethnicities (Not Hispanic or Latino), and (4) Not Specified (i.e., individuals who chose not to disclose demographic data).

Table C-3: Permanent Employees, Sex Distribution by Pay Grade Category, 2011–2013

Workforce by sex and pay grade category	2011		2012		2013	
	Number	% of total workforce	Number	% of total workforce	Number	% of total workforce
Total permanent workforce	2,187	100.00	2,279	100.00	2,353	100.00
All others (FR-16–FR-25 and WE-41–WE-47)						
Female	497	22.73	490	21.50	488	20.74
Male	508	23.23	522	22.90	523	22.23
Total	1,005	45.95	1,012	44.41	1,011	42.97
Mid-level professionals (FR-26–FR-28)						
Female	380	17.38	409	17.95	424	18.02
Male	517	23.64	548	24.05	578	24.56
Total	897	41.02	957	41.99	1,002	42.58
Senior managers and officers (FR-29–00)						
Female	115	5.26	122	5.35	135	5.74
Male	170	7.77	188	8.25	205	8.71
Total	285	13.03	310	13.60	340	14.45

Source: OIG analysis of Board-provided data.

Table C-4: Permanent Employees, Age Distribution by Pay Grade Category, 2011–2013

Workforce by age and pay grade category	2011		2012		2013	
	Number	% of total workforce	Number	% of total workforce	Number	% of total workforce
Total permanent workforce	2,187	100.00	2,279	100.00	2,353	100.00
All others (FR-16–FR-25 and WE-41–WE-47)						
Under 40	529	24.19	541	23.74	559	23.76
40 or older	476	21.76	471	20.67	452	19.21
Total	1,005	45.95	1,012	44.41	1,011	42.97
Mid-level professionals (FR-26–FR-28)						
Under 40	366	16.74	409	17.95	441	18.74
40 or older	531	24.28	548	24.05	561	23.84
Total	897	41.02	957	41.99	1,002	42.58
Senior managers and officers (FR-29–00)						
Under 40	32	1.46	33	1.45	32	1.36
40 or older	253	11.57	277	12.15	308	13.09
Total	285	13.03	310	13.60	340	14.45

Source: OIG analysis of Board-provided data.

Appendix D

Recruiting and Hiring Data

Tables D-1 through D-4 provide the complete distribution of applicants based on sex and race/ethnicity for professional and wage employee and specialized positions of research assistants and economist. For each category under the candidate dispositions, the table provides the number and percentage of applicants that were referred and hired.

Table D-1: Recruiting and Hiring for Professional and Wage Positions, by Sex, 2011–2013

Candidate disposition by sex	2011		2012		2013	
	Number	% of applicants	Number	% of applicants	Number	% of applicants
Applicants						
Female	3,588	35.67	3,076	40.83	3,427	41.86
Male	5,413	54.19	3,600	47.79	3,824	46.71
Unknown	1,020	10.14	857	11.38	936	11.43
Total applicants	10,059	100.00	7,533	100.00	8,187	100.00
Referred						
Female	1,835	51.14	1,397	45.42	1,302	37.99
Male	2,709	49.70	1,720	47.78	1,763	46.10
Unknown	707	69.31	603	70.36	539	57.59
Total referred	5,251	52.20	3,720	49.38	3,604	44.02
Hired^a						
Female	92	2.56	89	2.89	65	1.90
Male	140	2.57	110	3.06	89	2.33
Unknown	0	0.00	0	0.00	0	0.00
Total hired	232	2.31	199	2.64	154	1.88

Source: OIG analysis of Board-provided data.

^aAll individuals who were hired provided demographic data.

Table D-2: Recruiting and Hiring Distribution for Professional and Wage Positions, by Race/Ethnicity, 2011–2013

Candidate disposition by race/ethnicity	2011		2012		2013	
	Number	% of applicants	Number	% of applicants	Number	% of applicants
Applicants						
Asian	1,200	11.93	838	11.12	928	11.34
Black/African American	3,112	30.94	2,387	31.69	2,681	32.75
White	3,339	33.19	2,394	31.78	2,531	30.91
Hispanic/Latino	542	5.39	360	4.78	393	4.80
Other ^a	368	3.66	284	3.77	329	4.02
Unknown ^b	1,498	14.89	1,270	16.86	1,325	16.18
Total applicants	10,059	100.00	7,533	100.00	8,187	100.00
Referred						
Asian	515	42.92	353	42.12	354	38.15
Black/African American	1,508	48.46	1,037	43.44	1,141	42.56
White	1,856	55.59	1,253	52.34	1,091	43.11
Hispanic/Latino	264	48.71	170	47.22	173	44.02
Other ^a	173	47.01	120	42.25	138	41.95
Unknown ^b	935	62.42	787	61.97	707	53.36
Total referred	5,251	52.20	3,720	49.38	3,604	44.02
Hired^c						
Asian	32	2.67	26	3.10	24	2.59
Black/African American	49	1.57	45	1.89	34	1.27
White	138	4.13	108	4.51	87	3.44
Hispanic/Latino	10	1.85	15	4.17	6	1.53
Other ^a	3	0.82	5	1.76	3	0.91
Unknown ^b	0	0.00	0	0.00	0	0.00
Total hired	232	2.31	199	2.64	154	1.88

Source: OIG analysis of Board-provided data.

^aOther includes (1) Native Hawaiian or Other Pacific Islander (Not Hispanic or Latino), (2) American Indian or Alaska Native (Not Hispanic or Latino), and (3) Two or More Races/Ethnicities (Not Hispanic or Latino).

^bUnknown includes individuals who chose not to disclose their demographic data.

^cAll individuals who were hired provided demographic data.

Table D-3: Recruiting and Hiring for Economists and Research Assistants, by Sex, 2011–2013

Candidate disposition by sex	2011		2012		2013	
	Number	% of applicants	Number	% of applicants	Number	% of applicants
Applicants^a						
Female	525	10.67	830	13.04	149	2.73
Male	1,099	22.33	1,783	28.00	280	5.13
Unknown	3,298	67.01	3,754	58.96	5,024	92.13
Total applicants	4,922	100.00	6,367	100.00	5,453	100.00
Referred^b						
Female	524	99.81	725	87.35	138	92.62
Male	1,096	99.73	1,547	86.76	253	90.36
Unknown	3,297	99.97	3,314	88.28	5,020	99.92
Total referred	4,917	99.90	5,586	87.73	5,411	99.23
Hired^c						
Female	42	8.00	27	3.25	38	25.50
Male	74	6.73	58	3.25	74	26.43
Unknown	0	0.00	0	0.00	0	0.00
Total hired	116	2.36	85	1.34	112	2.05

Source: OIG analysis of Board-provided data.

^aFor the purposes of our review, multiple divisions may consider any candidate in the database for an economist or research assistant position. As a result, individuals were counted multiple times.

^bAn economist applicant is automatically referred to a hiring manager in all divisions that hire economists. Research assistants can be referred to a hiring manager in multiple divisions, once considered qualified.

^cAll individuals who were hired provided demographic data.

Table D-4: Recruiting and Hiring for Economists and Research Assistants, by Race/Ethnicity, 2011–2013

Candidate disposition by race/ethnicity	2011		2012		2013	
	Number	% of applicants	Number	% of applicants	Number	% of applicants
Applicants^a						
Asian	429	8.72	695	10.92	61	1.12
Black/African American	63	1.28	97	1.52	26	0.48
White	974	19.79	1,451	22.79	301	5.52
Hispanic/Latino	128	2.60	303	4.76	19	0.35
Other ^b	21	0.43	45	0.71	15	0.28
Unknown ^c	3,307	67.19	3,776	59.31	5,031	92.26
Total applicants	4,922	100.00	6,367	100.00	5,453	100.00
Referred^d						
Asian	429	100.00	604	86.91	54	88.52
Black/African American	61	96.83	81	83.51	19	73.08
White	972	99.79	1,257	86.63	283	94.02
Hispanic/Latino	128	100.00	275	90.76	17	89.47
Other ^b	21	100.00	39	86.67	13	86.67
Unknown ^c	3,306	99.97	3,330	88.19	5,025	99.88
Total referred	4,917	99.90	5,586	87.73	5,411	99.23
Hired^e						
Asian	21	4.90	16	2.30	24	39.34
Black/African American	0	0.00	2	2.06	0	0.00
White	88	9.03	66	4.55	80	26.58
Hispanic/Latino	4	3.13	1	0.33	5	26.32
Other ^b	3	14.29	0	0.00	3	20.00
Unknown ^c	0	0.00	0	0.00	0	0.00
Total hired	116	2.36	85	1.34	112	2.05

Source: OIG analysis of Board-provided data.

^aFor the purposes of our review, multiple divisions may consider any candidate in the database for an economist or research assistant position. As a result, individuals were counted multiple times.

^bOther includes (1) Native Hawaiian or Other Pacific Islander (Not Hispanic or Latino), (2) American Indian or Alaska Native (Not Hispanic or Latino), and (3) Two or More Races/Ethnicities (Not Hispanic or Latino).

^cUnknown includes individuals who chose not to disclose their demographic data.

^dAn economist applicant is automatically referred to a hiring manager in all divisions that hire economists. Research assistants can be referred to a hiring manager in multiple divisions, once considered qualified.

^eAll individuals who were hired provided demographic data.

Appendix E

External Consulting Firm's Statistical Analysis of the Board's FY 2011, FY 2012, and FY 2013 Performance Ratings

An Analysis of Gender, Race, and Age Differences in Performance Ratings of FRB Employees: 2011-2013

October 20, 2014

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Executive Summary

On March 24, 2014, members of the United States House of Representatives Committee on Financial Services sent letters requesting that the Offices of Inspector Generals (OIGs) for seven financial regulatory agencies perform work to determine whether agency internal operations and personnel practices are systematically disadvantaging minorities and women from obtaining senior management positions. The Federal Reserve Board (FRB) was one of these agencies.

The OIGs initiated individual assignments with a general overall objective to assess agency personnel operations and other efforts to provide for equal employment opportunities, including equal opportunity for minorities and women to obtain senior management positions, and increase racial, ethnic and gender diversity in the workforce. One element of the work was for each OIG to assemble agency wide performance appraisal data to identify performance ratings distributions by gender, race/ethnicity, age and bargaining unit status (where applicable). This report presents the methodology and results of the analyses conducted for the OIG for the Board of Governors of the Federal Reserve System (FRB).

Separate analyses were conducted on overall performance ratings administered in 2011, 2012, and 2013. These analyses were conducted to detect potential performance rating differences based on gender, race/ethnicity and age. Analyses were conducted at a number of different job levels. Both statistical significance tests (e.g., t-tests) and effect sizes (e.g., d-scores) were evaluated to determine whether differences were meaningful. Standard social science criteria (e.g., $\alpha = .05$) were used to interpret statistical significance, and effect sizes were compared to typical results found in the personnel selection research literature.

For gender data, males and females did not differ significantly in performance ratings at any level of analysis in any of the three years.

For the agency wide race/ethnicity data, Whites were rated significantly higher than African Americans and Asians in all three years, and were rated significantly higher than Hispanics in 2012 but not 2011 and 2013.

Lastly, for age data, younger workers were rated significantly higher than older workers at the mid-level jobs for all three years.

Statistically significant group differences do not necessarily indicate discrimination by themselves. Differences in performance ratings could be due to a wide variety of explanations. This report concludes with a number of measures that an agency can take to assess performance rating system content and process.

Introduction

Project Background

On March 24, 2014, members of the United States House of Representatives Committee on Financial Services sent letters requesting that the Offices of Inspector General (OIGs) for seven financial regulatory agencies perform work to determine whether agency internal operations and personnel practices are systematically disadvantaging minorities and women from obtaining senior management positions.¹ The agencies include the following:

- Federal Deposit Insurance Corporation (FDIC)
- Board of Governors of the Federal Reserve System (FRB)
- Consumer Financial Protection Bureau (CFPB)
- Office of the Comptroller of the Currency (OCC)
- Federal Housing Finance Agency (FHFA)
- National Credit Union Administration (NCUA)
- Securities and Exchange Commission (SEC)

The OIGs initiated individual assignments with a general overall objective to assess agency personnel operations and other efforts to provide for equal employment opportunities, including equal opportunity for minorities and women to obtain senior management positions, and increase racial, ethnic and gender diversity in the workplace. One element of the work was for each OIG to assemble agency wide performance appraisal data to identify performance ratings distributions by gender, race/ethnicity, age and bargaining unit status (applicable to all agencies except the FRB and FHFA). The FDIC Office of Inspector General (FDIC OIG) offered to engage and fund an independent contractor to perform statistical analyses of the performance appraisal results for each agency to determine whether there are statistically significant differences between groups of interest. DCI Consulting Group was selected to conduct these analyses for each of the agencies except for the Securities and Exchange Commission (SEC).

This report presents the methodology and results of the analyses conducted for the OIG for the Board of Governors of the Federal Reserve System (FRB).²

The FRB Performance Rating System

The performance management program at FRB serves as the basis for determining “pay-for-performance” amounts provided to employees. These increases take the form of *merit increases*, which affect employees’ base salary and growth over time. Performance ratings may also be considered when determining variable pay or eligibility for additional incentive programs. Employees who receive lower ratings (i.e., unsatisfactory or marginal) may not be eligible for such increases.

¹ See the Appendix for a copy of this letter.

² DCI staff conducted all analyses and authored this report. Nothing in the report should be construed as representing the views of FRB OIG.

The distribution of performance ratings for 2011, 2012, and 2013 are depicted in Table 1. As presented, the lower the rating the better the performance. For purposes of exposition and consistency across agencies, these codes were reverse ordered so that higher ratings reflected better performance in the results section below. For example, a rating of 5 represents extraordinary performance in the results summarized in this report.

Table 1. Distribution of Performance Ratings

Rating	Count			Percent		
	2011	2012	2013	2011	2012	2013
1 – Extraordinary	378	429	480	19.13	20.27	22.39
2 – Outstanding	712	848	956	36.03	40.08	44.59
3 – Commendable	882	829	696	44.64	39.18	32.46
4 – Marginal	4	10	12	0.20	0.47	0.56
5 – Unsatisfactory	0	0	0	0.00	0.00	0.00

Method

Initial Dataset

FRB OIG provided DCI with data for 2011, 2012 and 2013. The performance time period covered for each year was from October 1st through September 30th. Relevant information for each year included:

- Performance Year
- EEO1 Category
- Job Function
- Job Level
- Salary Plan
- Overall Rating
- Rating Description
- Age
- Race/National origin
- Gender
- Whether the employee was 40 years of age or Older

The dataset for each year included all employees who were eligible for performance ratings. Although OIG employees are rated using the FRB system, they were not included in the dataset. Neither employee name nor employee number was included in the dataset.

Data Cleaning

The first step in the data cleaning process was to remove employees in the dataset who had not been with the agency long enough (90 days) to receive a performance rating. As it turned out, no employees were removed in any of the three years.

Race/Ethnicity Grouping

FRB OIG provided race/ethnicity grouping for analysis. Their coding scheme is presented in Table 2. If employees listed only one race/ethnicity (e.g., White, Asian), they were placed into that race/ethnicity category. If employees listed more than one race/ethnicity (e.g., Asian and White) were placed into the category of “Two or more”.³ Employees who did not identify their

³ As shown in Table 2, the exception to this was that any employees identifying themselves as Hispanic, regardless of whether they listed any other races, were counted as Hispanic rather than “Two or More.” There were no employees categorized as “Two or more” races. Note that employees self-identifying as “two or more” races or “other” are typically not included in any analysis, because those classifications could mean many different things, particularly due to the number of possible race combinations.

race/ethnicity were included in the gender and age analyses but were omitted from the race/ethnicity analyses.

Table 2. Race/Ethnicity From Dataset and Race/Ethnicity Analysis Groups

Analysis Grouping	Race/Ethnicity Categories in Dataset
White, Non-Hispanic (White)	<ul style="list-style-type: none"> • White • White, not of Hispanic origin • Not Hispanic in Puerto Rico
Asian (Asian)	<ul style="list-style-type: none"> • Asian
Black or African American (African American)	<ul style="list-style-type: none"> • Black or African American • Black, not of Hispanic Origin
Hispanic or Latino (Hispanic)	<ul style="list-style-type: none"> • Hispanic • Hispanic or Latino • Hispanic or Latino, American Indian or Alaska Native • Hispanic or Latino, Black or African American • Hispanic or Latino, Black or African American, White • Hispanic or Latino, White
Native Hawaiian or Other Pacific Islander (Native Hawaiian)	<ul style="list-style-type: none"> • Native Hawaiian • Other Pacific Islander
American Indian or Alaska Native (American Indian)	<ul style="list-style-type: none"> • American Indian • Alaska Native • American Indian/Alaska Native
Other	<ul style="list-style-type: none"> • Unknown

Age Grouping

FRB OIG also provided age groupings for analysis. Employees were placed into one of two categories: under 40 or 40+. These categories were chosen to be consistent with the Age Discrimination in Employment Act (ADEA). The category placement was based on the employee's age on the first day of the performance period for each of the three years. Table 3 depicts the race/ethnicity, gender, and age breakdown for each of the three years.

Table 3. Number of Employees by Gender, Race/Ethnicity, and Age

Demographic Group	Year		
	2011	2012	2013
TOTAL	1,976	2,116	2,144
Gender			
Female	917	960	973
Male	1,059	1,156	1,171
Race/Ethnicity			
White	1,087	1,184	1,185
Black or African American	546	550	554
Asian	229	259	280
Not Specified	3	2	2
Hispanic/Latino	79	87	88
American Indian/Alaskan Native	2	2	2
Native Hawaiian/Pacific Islander	1	2	0
Other (Unknown)	29	30	33
Age			
Under 40	778	881	893
40+	1,198	1,235	1,251

Data Integrity

To ensure the integrity of the data, two consultants reviewed the initial dataset. To ensure the accuracy of the statistical analyses, the analyses were conducted twice by separate consultants using different analysis programs (i.e., SAS, SPSS, Excel, HR Equator). These separate analyses yielded identical results.

Data Analysis Methodology

The OIGs for each agency agreed that the analyses would be conducted at two levels for all agencies: Overall and by bargaining unit status (where applicable). However, bargaining status was not a factor in the FRB data. Each agency then determined other levels of analysis that made sense for the agency. FRB OIG asked that analyses also be conducted by job level (senior managers, mid-level employees, and all other employees).

To compare the differences in the mean performance ratings across gender, race/ethnicity and age groups, tests of both statistical significance and practical significance were used.⁴ Tests of

⁴ Statistical analyses were only conducted when comparisons included 5 or more employees in each group. This decision was based on professional judgment. Small sample results are often non-representative, unstable and can change substantially with small changes in the data. Samples too small for analyses are labeled n/a in results tables.

statistical significance indicate the probability that the group difference could have been due to chance. A statistically significant result does not imply that a difference is good or bad or that it is large or small. Instead it simply indicates that the observed difference is probably not due to chance. In contrast, measures of practical significance provide an indication of the size of the difference.

To determine if the group differences were statistically significant, t-tests were used.⁵ To assess statistical significance, DCI used two-tailed tests, which assess rating differences in both directions (e.g., differences that favor males as well as differences that favor females) and an alpha level of .05. Both standards are common in social science research. An alpha level of .05 indicates that the probability of a false positive (i.e., a statistically significant result that is incorrect) is 5 percent. This threshold for identifying a statistically significant difference generally corresponds to a t-value of 1.96 (although this value may vary slightly depending on sample size). Any t-value highlighted in the results tables was statistically significant at an alpha level of .05.

To determine practical significance, two measures were used: the percent differences between the two groups and d-scores. A d-score indicates the size of the difference in terms of standard deviations. That is, a d of 1.0 indicates that the two groups differed by a full standard deviation (a large effect) whereas a d of 0.10 indicates that the two groups differed by a tenth of a standard deviation (a small effect).

Table 4 will be helpful in interpreting the d-scores observed for FRB. The table summarizes a combination of d-scores obtained in a meta-analysis⁶ by Roth, Huffcutt, and Bobko (2003)⁷ on racial differences, a meta-analysis by McKay and McDaniel (2006)⁸ on Black-White differences, a meta-analysis by Roth, Purvis, and Bobko (2012)⁹ on gender differences, as well as internal research conducted by DCI. Thus, Table 4 represents the gender and race/ethnicity differences that are “typically found” in studies of performance appraisal differences. There have been no meta-analyses comparing performance ratings of employees over and under 40.

⁵ For each comparison, we tested the assumption of equal variances between the two groups. If this test indicated unequal variances, a *t*-test for unequal variances was used (Welch's *t*-test). If the Welch's *t*-test changed the significance interpretation from that of the initial Student's *t*-test, the Welch's *t*-test value was listed in the table.

⁶ A meta-analysis is a study that statistically combines the results of all previous studies conducted on a topic. These studies combine data over time (e.g., some source studies date back to the 1960s) and from a variety of jobs (e.g., blue collar and white collar) in different settings (e.g., private, public and military) to identify “typical” findings. In this context, the results of a meta-analysis are a series of effect sizes (d-scores) that provide a single source summary of previous research. Interested readers should refer to the references below for more information related to specific studies.

⁷ Roth, P. L., Huffcutt, A. L., & Bobko, P. (2003). Ethnic group differences in measures of job performance: A meta-analysis. *Journal of Applied Psychology*, 88(4), 694-706.

⁸ McKay, P. F., & McDaniel, M. A. (2006). A reexamination of Black-White mean differences in work performance: More data, more moderators. *Journal of Applied Psychology*, 91(3), 538-554.

⁹ Roth, P. L., Purvis, K. L., & Bobko, P. (2012). A meta-analysis of gender group differences for measures of job performance in field studies. *Journal of Management*, 38(2), 719-739.

Table 4. “Typical” D-Scores Found in Performance Rating Studies

Comparison	Level of Analysis	
	Company Wide	By Title
Male – Female	-0.07	-0.08
White – Black	0.34	0.22
White – Hispanic	0.14	0.07
White – Asian	0.08	0.00

Note: Negative d-scores indicate females have higher ratings than men. D-scores computed by title reflect average performance differences between protected class subgroups within specific titles, rather than company-wide. Thus, analyses conducted by title are conducted at a finer level of analysis than are analyses conducted company wide, such that employees are more similar to one another in each cross-section of employees that are analyzed.

Analysis Results

Gender

Table 5 presents the results of gender analyses. There were no statistically significant gender differences in average performance ratings either agency wide or within the three job levels. This pattern was observed for all three years.

Race/Ethnicity

White to African-American Comparison

As depicted in Table 6, for 2013 the average performance ratings for Whites were higher than the average performance ratings for African Americans, at a statistically significant level, when evaluating ratings agency wide. However, when the data were analyzed by job level, there were no statistically significant White-African American differences in ratings. The effect size for the agency wide difference in 2013 ($d = 0.23$) was smaller than the value normally found for company-wide White-African American comparisons (which is $d = 0.34$).

In terms of statistically significant findings at the agency wide level, the pattern for 2012 and 2011 was identical to that of 2013: the average performance ratings for Whites were higher than the average performance ratings for African Americans, at a statistically significant level. The effect size for 2012 was $d = 0.32$ and for 2011 was $d = 0.27$, which is similar to the magnitude of differences reported in the research literature. The results for 2012 were also similar to those for 2013 in that there were no statistically significant differences once the data were analyzed by job level. In 2011, however, there was a statistically significant difference between average ratings of Whites and African Americans for the all other employee job level ($d = 0.15$).¹⁰

White to Hispanic Comparison

As depicted in Table 7, there were two statistically significant differences in the average performance ratings of Whites and Hispanics across all years and comparisons. In 2013, there was a statistically significant difference in favor of Hispanics at the senior manager level. This effect was in the opposite direction of what is typically found in the literature and was large ($d = -0.77$). However, it should be noted that this latter comparison included 247 Whites and only 7 Hispanics, and results should be interpreted with caution.

¹⁰ One pattern that we were not asked to formally evaluate using statistics, but which is clear simply by evaluating the average ratings across the different job levels, is that employees at higher levels tend to receive higher performance ratings.

Table 5. Analysis Results - Gender Comparison

Year/Unit of Analysis	Count		Avg Rating		Statistics		
	M	F	M	F	t-value	% diff	d
2013							
Overall	1171	973	3.89	3.88	0.47	0.4	0.02
Level							
Sr Mgmt	186	127	4.32	4.42	-1.36	-2.3	-0.16
Mid-Level	529	399	3.91	3.90	0.26	0.3	0.02
Other	456	447	3.70	3.71	-0.15	-0.2	-0.01
2012							
Overall	1156	960	3.82	3.78	1.12	1.0	0.05
Level							
Sr Mgmt	178	115	4.38	4.33	0.58	1.1	0.07
Mid-Level	519	394	3.84	3.80	0.79	1.0	0.05
Other	459	451	3.58	3.62	-0.95	-1.3	-0.06
2011							
Overall	1059	917	3.74	3.74	0.20	0.2	0.01
Level							
Sr Mgmt	161	108	4.26	4.34	-0.96	-1.9	-0.12
Mid-Level	462	351	3.68	3.77	-1.85	-2.5	-0.13
Other	436	458	3.62	3.57	1.14	1.6	0.08

Note: Negative t-values indicate women received higher ratings than men

t-values highlighted in orange indicate that the t-value is statistically significant favoring women

t-values highlighted in gray indicate that the t-value is statistically significant favoring men

Table 6. Analysis Results - Race: White to African American Comparison

Year/Unit of Analysis	Count		Avg Rating		Statistics		
	W	AA	W	AA	t-value	% diff	d
2013							
Overall	1185	554	3.96	3.79	4.48	4.6	0.23
Level							
Sr Mgmt	247	37	4.37	4.27	0.86	2.3	0.15
Mid-Level	584	129	3.95	3.86	1.20	2.2	0.12
Other	354	388	3.71	3.72	-0.23	-0.3	-0.02
2012							
Overall	1184	550	3.89	3.65	6.21	6.6	0.32
Level							
Sr Mgmt	243	27	4.37	4.37	0.03	0.1	0.01
Mid-Level	584	119	3.84	3.79	0.73	1.4	0.07
Other	357	404	3.65	3.56	1.66	2.5	0.12
2011							
Overall	1087	546	3.82	3.62	5.13	5.6	0.27
Level							
Sr Mgmt	223	26	4.30	4.31	-0.08	-0.3	-0.02
Mid-Level	533	103	3.73	3.75	-0.25	-0.5	-0.03
Other	331	417	3.66	3.54	2.09	3.2	0.15

Note: Negative t-values indicate African Americans received higher ratings than Whites

t-values highlighted in orange indicate that the t-value is statistically significant favoring African Americans

t-values highlighted in gray indicate that the t-value is statistically significant favoring Whites

Table 7. Analysis Results - Race: White to Hispanic Comparison

Year/Unit of Analysis	Count		Avg Rating		Statistics		
	W	H	W	H	t-value	% diff	d
2013							
Overall	1185	88	3.96	3.81	1.87	4.1	0.21
Level							
Sr Mgmt	247	7	4.37	4.86	-2.00	-10.1	-0.77
Mid-Level	584	43	3.95	3.77	1.54	4.8	0.24
Other	354	38	3.71	3.66	0.40	1.4	0.07
2012							
Overall	1184	87	3.89	3.71	2.15	4.9	0.24
Level							
Sr Mgmt	243	6	4.37	4.50	-0.45	-2.8	-0.19
Mid-Level	584	45	3.84	3.69	1.37	4.2	0.21
Other	357	36	3.65	3.61	0.32	1.2	0.06
2011							
Overall	1087	79	3.82	3.67	1.69	4.2	0.20
Level							
Sr Mgmt	223	4	4.30	n/a	n/a	n/a	n/a
Mid-Level	533	39	3.73	3.54	1.57	5.4	0.26
Other	331	36	3.66	3.67	-0.06	-0.2	-0.01

Note: Negative t-values indicate Hispanics received higher ratings than Whites

t-values highlighted in orange indicate that the t-value is statistically significant favoring Hispanics

t-values highlighted in gray indicate that the t-value is statistically significant favoring Whites

At the agency wide level in 2012, Whites received significantly higher performance ratings than Hispanics and the effect size exceeded what would be expected based on the research literature ($d=0.24$). However, there were no significant differences in performance ratings within any of the three job levels.

For 2011, there were no significant differences in performance ratings for Whites versus Hispanics at an agency wide level, and for either mid-level employees or all other employees. There were too few Hispanic senior managers ($N=4$) to make a comparison between White and Hispanic at the senior manager level.

White to Asian Comparison

As depicted in Table 8, Whites received significantly higher performance ratings than Asians at the agency wide level in 2013, and the effect size ($d=0.22$) was larger than the value normally found for company-wide White-Asian differences ($d=0.08$). However, there were no significant differences in performance ratings within any of the three job levels.

This pattern was repeated for both 2012 and 2011, where Whites received significantly higher performance ratings than Asians ($d=0.22$). However, as in 2013, there were no significant differences in performance ratings within any of the three job levels in either 2012 or 2011.

Age

As depicted in Table 9, there were no statistically significant differences in performance ratings between older and younger employees in 2013 at an agency wide level, for senior managers, or for all other employees. However, there was a significant difference in favor of younger employees for mid-level employees ($d=0.21$).

In 2012, there was a statistically significant overall difference in performance ratings favoring older employees ($d=-0.11$). However, there were no significant differences in ratings for younger and older employees when looking at the senior manager or all other employee job level. Younger employees received significantly higher ratings than older employees for mid-level employees ($d=0.13$). This flip in the direction of the difference across unit of analysis is likely what statisticians refer to as a Simpson's paradox. This phenomenon occurs when aggregating data across levels while ignoring the distributions at particular levels produce misleading results (i.e., that older workers are significantly favored in the aggregate). In this case, a larger percentage of older workers were in senior executive roles compared to younger workers, where ratings were much higher than other job levels. As such the larger percentage of older workers at this level may be driving aggregate results.

For 2011, there were no significant differences in performance ratings between older and younger employees at an agency wide level, and the same was true for senior managers and all

other employees. However, there was a significant difference in favor of the younger employees for mid-level employees ($d = 0.20$).

Table 8. Analysis Results - Race: White to Asian Comparison

Year/Unit of Analysis	Count		Avg Rating		Statistics		
	W	A	W	A	t-value	% diff	d
2013							
Overall	1185	280	3.96	3.80	3.36	4.4	0.22
Level							
Sr Mgmt	247	20	4.37	4.25	0.80	2.8	0.19
Mid-Level	584	156	3.95	3.83	1.73	3.0	0.16
Other	354	104	3.71	3.65	0.67	1.5	0.07
2012							
Overall	1184	259	3.89	3.73	3.24	4.5	0.22
Level							
Sr Mgmt	243	15	4.37	4.07	1.73	7.6	0.46
Mid-Level	584	148	3.84	3.80	0.57	1.0	0.05
Other	357	96	3.65	3.55	1.19	2.8	0.14
2011							
Overall	1087	229	3.82	3.66	3.02	4.6	0.22
Level							
Sr Mgmt	223	13	4.30	4.15	0.73	3.4	0.21
Mid-Level	533	122	3.73	3.70	0.31	0.6	0.03
Other	331	94	3.66	3.52	1.56	3.9	0.18

Note: Negative t-values indicate Asians received higher ratings than Whites

t-values highlighted in orange indicate that the t-value is statistically significant favoring Asians

t-values highlighted in gray indicate that the t-value is statistically significant favoring Whites

Table 9. Analysis Results - Age Comparison

Year/Unit of Analysis	Count		Avg Rating		Statistics		
	<40	40+	<40	40+	t-value	% diff	d
2013							
Overall	893	1251	3.86	3.90	-1.23	-1.0	-0.05
Level							
Sr Mgmt	34	279	4.38	4.35	0.24	0.6	0.04
Mid-Level	394	534	4.00	3.84	3.18	4.0	0.21
Other	465	438	3.71	3.69	0.46	0.6	0.03
2012							
Overall	881	1235	3.75	3.84	-2.57	-2.2	-0.11
Level							
Sr Mgmt	34	259	4.47	4.34	1.05	2.9	0.19
Mid-Level	388	525	3.88	3.78	1.99	2.5	0.13
Other	459	451	3.59	3.61	-0.40	-0.5	-0.03
2011							
Overall	778	1198	3.72	3.75	-0.87	-0.8	-0.04
Level							
Sr Mgmt	34	235	4.32	4.29	0.27	0.8	0.05
Mid-Level	304	509	3.81	3.67	2.79	4.0	0.20
Other	440	454	3.61	3.57	0.83	1.1	0.06

Note: Negative t-values indicate those 40 years of age or older received higher ratings than those younger than 40 years of age
t-values highlighted in orange indicate that the t-value is statistically significant favoring those 40 years of age or older
t-values highlighted in gray indicate that the t-value is statistically significant favoring those younger than 40 years of age

Conclusions and Discussion

This report summarized the methodology and results of analyses related to subgroup differences on overall performance ratings administered in 2011, 2012, and 2013 at FRB. These analyses were conducted to detect potential performance rating differences based on gender, race/ethnicity and age. Analyses were conducted at a variety of levels of analysis. Both statistical significance tests (e.g., t-tests) and effect sizes (e.g., d-scores) were evaluated to determine whether differences were meaningful. Standard social science criteria (e.g., $\alpha = .05$) were used to interpret statistical significance, and effect sizes were compared to typical results found in the personnel selection research literature.

The agency wide results across years indicate no pattern of statistically significant differences in average performance ratings between (a) women and men, (b) Hispanics and Whites, or (c) those age 40 or older and those younger than 40. In fact, there were no statistically significant gender differences, regardless of the level of analysis (i.e., overall or by organizational level). There were two statistically significant differences in average performance ratings between Hispanics and Whites, but they were not (a) at the same level of analysis (one was at the agency wide level and the other at the senior management level) or (b) in the same direction (one indicated higher average ratings for Hispanics and the other for Whites). Thus, in general, the overall results indicated no systematic differences in performance ratings for gender or White-Hispanic comparisons. With respect to age, a consistent pattern across years emerged at the mid-level jobs. The average performance ratings for employees younger than 40 were higher than those for employees age 40 or older, at a statistically significant level, but the effect sizes were not large.

With respect to agency wide performance differences between White employees and both Asian and African American employees, there is a trend of statistically significant differences in average ratings. In all three years, the average performance ratings for Whites were higher than those for Asians, at a statistically significant level. Similarly, in all three years, the average performance ratings for Whites were higher than those for African Americans, at a statistically significant level. The White-Asian differences were higher than that which is typically reported in the research literature, whereas the White-African American differences were lower than that which is typically reported in the research literature. It is notable that in the case of both White-Asian comparisons and White-African American comparisons, there is not a trend of statistically significant differences in performance ratings once the data are evaluated by job level.

Interpreting Statistically Significant Findings

It is important to understand that a statistically significant difference in ratings based on gender, race/ethnicity, or age does not necessarily indicate that discrimination is occurring. Such group differences could be due to actual differences in performance, regional differences in ratings, job family differences in ratings (i.e., supervisors in certain fields are more strict or lenient than supervisors in other fields) or some combination of all these factors.

To investigate whether any group differences are due to actual differences in performance or other factors rather than to discrimination, a number of measures could be taken to assess an agency's performance rating system process and content. These include verification that:

- The performance appraisal dimensions are job related;
- The performance appraisal system is adequately structured;
- Supervisors making the performance evaluations receive training;
- There is a system in place for management to review supervisor's performance ratings to determine if there are any patterns (e.g., racial or gender differences) that need to be reviewed;
- There is an appeal process for employees who believe their performance ratings are not accurate;
- There is a standardized, objective system for making employment decisions (e.g., merit increases, promotions) on the basis of the performance ratings;
- There is a well-developed feedback system through which employees can receive information about their performance that will promote their future development and enable them to improve job performance.

Potential Future Analyses

As described above, in cases where statistically significant differences exist, we generally recommend that the performance appraisal system be evaluated along the dimensions described above. In addition, a number of follow up analyses may be useful for interpreting results and gaining a clearer understanding of what factors may be driving those findings.

First, the analyses for this report were conducted at three job levels: senior managers, mid-level employees, and all other employees. It might be useful to conduct further analyses by such strata as salary band, region or location, and job title. In some instances, job level results may be further explained by more nuanced analyses and more granular levels.

Second, examining the interaction between the race/ethnicity and gender of the employee and the race/ethnicity and gender of the supervisor might also provide some insight into the statistically significant group differences. In some instances rater-ratee interactions may further explain results.

Third, because the analyses in this report focused on the overall rating, it might be informative to look at group differences in the initial element ratings, to determine whether a particular element could be driving results.

Fourth, it may be useful to analyze tangible employment outcomes that are directly or indirectly linked to performance ratings. For example, merit raises, bonuses and promotion decisions could

all be analyzed across the protected groups discussed in this report. This set of analyses could provide a broader perspective on equal employment opportunity outcomes across groups.

Note: We did not include appendix I of the external consultant's report, which is a copy of the congressional request letter. We include that letter as appendix A of this report.

Appendix F

Performance Management Data

In addition to the consultant's analysis on performance management data, we conducted our own analysis to determine the average performance ratings for each division by race/ethnicity (tables F-1 and F-2).

Table F-1: Average Performance Ratings, Race/Ethnicity Distribution by Division, 2011–2013

Average performance ratings by race/ethnicity	Division						
	Office of the Chief Operating Officer	Division of Financial Management	Division of Information Technology	Legal Division	Management Division	Office of the Staff Director	Office of the Secretary
2011							
Asian	a	a	2.35	2.29	2.29	N/A	N/A
Black/African American	a	a	2.33	2.62	2.34	2.32	2.39
White	a	a	2.24	2.22	2.14	2.08	2.25
Hispanic/Latino	a	a	2.17	N/A	2.50	N/A	2.50
Other ^b	a	a	1.83	N/A	2.25	N/A	N/A
2012							
Asian	a	1.88	2.29	2.29	2.18	c	N/A
Black/African American	a	2.57	2.38	2.43	2.35	c	2.32
White	a	2.04	2.29	2.10	2.17	c	2.00
Hispanic/Latino	a	N/A	2.17	N/A	2.41	c	N/A
Other ^b	a	N/A	2.33	N/A	2.25	c	N/A
2013							
Asian	N/A	2.25	2.15	2.38	2.13	c	N/A
Black/African American	2.30	2.43	2.38	2.33	2.13	c	2.36
White	2.00	2.12	2.16	2.07	2.04	c	2.00
Hispanic/Latino	N/A	N/A	2.00	N/A	2.00	c	2.33
Other ^b	N/A	N/A	2.17	N/A	2.11	c	N/A

Source: OIG analysis of Board-provided data.

Note: Analyses were only conducted when comparisons included more than five employees in each group. This decision was based on professional judgment; samples too small for analysis are labeled N/A, unless otherwise noted. The lower the average number, the higher the performance rating.

^aThe Office of the Chief Operating Officer and the Division of Financial Management were not established until 2012. Only two members of the Office of the Chief Operating Officer received a performance rating in 2012; therefore, the sample was too small for analysis.

^bOther includes (1) Native Hawaiian or Other Pacific Islander (Not Hispanic or Latino), (2) American Indian or Alaska Native (Not Hispanic or Latino), (3) Two or More Races/Ethnicities (Not Hispanic or Latino), and (4) Not Specified (i.e., individuals who chose not to disclose demographic data).

^cThe Office of the Staff Director was not an established division in 2012 and 2013; therefore, performance rating results were not captured for those years.

Table F-2: Average Performance Ratings, Race/Ethnicity Distribution by Divisions With Economist Positions, 2011–2013

Race/Ethnicity and year	Division							
	Office of Board Members	Division of Banking Supervision and Regulation	Division of Consumer and Community Affairs	Division of International Finance	Division of Monetary Affairs	Office of Financial Stability Policy and Research	Division of Research and Statistics	Division of Reserve Bank Operations and Payment Systems
2011								
Asian	N/A	2.42	N/A	2.22	2.29	^a	2.38	2.27
Black/African American	2.35	2.43	2.43	2.38	N/A	^a	2.68	2.57
White	1.88	2.27	2.08	2.21	1.92	^a	2.21	2.21
Hispanic/Latino	2.17	2.64	1.71	N/A	N/A	^a	2.33	N/A
Other ^b	N/A	N/A	N/A	N/A	N/A	^a	N/A	N/A
2012								
Asian	2.33	2.28	N/A	2.55	2.25	N/A	2.26	2.22
Black/African American	2.17	2.19	2.52	2.50	2.17	N/A	2.63	2.20
White	1.74	2.11	2.10	2.19	1.96	1.91	2.12	2.06
Hispanic/Latino	2.33	2.50	2.13	2.13	N/A	N/A	2.13	N/A
Other ^b	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
2013								
Asian	N/A	2.09	2.17	2.50	2.25	N/A	2.32	2.37
Black/African American	2.07	2.07	2.41	2.20	2.29	N/A	2.50	2.00
White	1.69	1.96	2.10	2.27	1.94	2.36	2.04	2.04
Hispanic/Latino	2.17	2.57	1.63	2.14	N/A	N/A	N/A	2.17
Other ^b	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Source: OIG analysis of Board-provided data.

Note: Analyses were only conducted when comparisons included more than five employees in each group. This decision was based on professional judgment; samples too small for analysis are labeled *N/A*, unless otherwise noted. The lower the average number, the higher the performance rating.

^aThe Office of Financial Stability Policy and Research was established in 2011. Only five staff members received performance ratings in 2011. Therefore, the sample was too small for analysis.

^b*Other* includes (1) Native Hawaiian or Other Pacific Islander (Not Hispanic or Latino), (2) American Indian or Alaska Native (Not Hispanic or Latino), (3) Two or More Races/Ethnicities (Not Hispanic or Latino), and (4) Not Specified (i.e., individuals who chose not to disclose demographic data).

Appendix G

Career-Ladder Promotions Data

Tables G-1 through G-3 depict career-ladder promotions by grade based on sex, race/ethnicity, and age for 2011, 2012, and 2013. The tables do not include the pay grade category from which the employee was promoted.

Table G-1: Career-Ladder Promotions, Sex Distribution by Pay Grade Category, 2011–2013

Sex and pay grade category	2011		2012		2013	
	Number	% of promotions	Number	% of promotions	Number	% of promotions
All others (FR-16–FR-25 and WE-41–WE-47)						
Female	54	41.86	75	44.91	66	40.24
Male	75	58.14	92	55.09	98	59.76
Total	129	100.00	167	100.00	164	100.00
Mid-level professionals (FR-26–FR-28)						
Female	9	29.03	24	50.00	28	43.08
Male	22	70.97	24	50.00	37	56.92
Total	31	100.00	48	100.00	65	100.00
Senior managers and officers (FR-29–00)						
Female	0	0.00	1	20.00	0	0.00
Male	0	0.00	4	80.00	1	100.00
Total	0	0.00	5	100.00	1	100.00

Source: OIG analysis of Board-provided data.

Table G-2: Career-Ladder Promotions, Race/Ethnicity Distribution by Pay Grade Category, 2011–2013

Race/Ethnicity and pay grade category	2011		2012		2013	
	Number	% of promotions	Number	% of promotions	Number	% of promotions
All others (FR-16–FR-25 and WE-41–WE-47)						
Asian	21	16.28	32	19.16	20	12.20
Black/African American	25	19.38	22	13.17	24	14.63
White	74	57.36	103	61.68	110	67.07
Hispanic/Latino	5	3.88	5	2.99	9	5.49
Other ^a	4	3.10	5	2.99	1	0.61
Total	129	100.00	167	100.00	164	100.00
Mid-level professionals (FR-26–FR-28)						
Asian	4	12.90	7	14.58	9	13.85
Black/African American	0	0.00	5	10.42	9	13.85
White	25	80.65	30	62.50	40	61.54
Hispanic/Latino	0	0.00	3	6.25	6	9.23
Other ^a	2	6.45	3	6.25	1	1.54
Total	31	100.00	48	100.00	65	100.00
Senior managers and officers (FR-29–00)						
Asian	0	0.00	0	0.00	N/A	0.00
Black/African American	0	0.00	0	0.00	N/A	0.00
White	0	0.00	5	100.00	1	100.00
Hispanic/Latino	0	0.00	0	0.00	N/A	0.00
Other ^a	0	0.00	0	0.00	N/A	0.00
Total	0	0.00	5	100.00	1	100.00

Source: OIG analysis of Board-provided data.

^aOther includes (1) Native Hawaiian or Other Pacific Islander (Not Hispanic or Latino), (2) American Indian or Alaska Native (Not Hispanic or Latino), (3) Two or More Races/Ethnicities (Not Hispanic or Latino), and (4) Not Specified (i.e., individuals who chose not to disclose demographic data).

Table G-3: Career-Ladder Promotions, Age Distribution by Pay Grade Category, 2011–2013

Age and pay grade category	2011		2012		2013	
	Number	% of promotions	Number	% of promotions	Number	% of promotions
All others (FR-16–FR-25 and WE-41–WE-47)						
Under 40	107	82.95	143	85.63	147	89.63
40 or older	22	17.05	24	14.37	17	10.37
Total	129	100.00	167	100.00	164	100.00
Mid-level professionals (FR-26–FR-28)						
Under 40	25	80.65	41	85.42	53	81.54
40 or older	6	19.35	7	14.58	12	18.46
Total	31	100.00	48	100.00	65	100.00
Senior managers and officers (FR-29–00)						
Under 40	0	0.00	1	20.00	1	100.00
40 or older	0	0.00	4	80.00	0	0.00
Total	0	0.00	5	100.00	1	100.00

Source: OIG analysis of Board-provided data.

Appendix H

Separations Data

Table H-1 illustrates separations, other than retirements, by sex, race/ethnicity, and age for 2011–2013.

Table H-1: Nonretirement Separations, by Sex, Race/Ethnicity, and Age, 2011–2013

Sex, race/ethnicity, and age	2011		2012		2013	
	Number	% of total workforce ^a	Number	% of total workforce ^a	Number	% of total workforce ^a
Total separations	117	5.35	139	6.10	138	5.86
Gender						
Female	53	5.34	53	5.19	49	4.68
Male	64	5.36	86	6.84	89	6.81
Race/Ethnicity						
Asian	16	6.13	13	4.53	14	4.39
Black/African American	12	2.12	20	3.49	12	2.09
White	83	6.72	98	7.63	99	7.49
Hispanic/Latino	4	4.65	5	5.26	9	9.38
Other ^b	2	5.26	3	7.69	4	9.30
Age						
Under 40	81	8.74	100	10.17	116	11.24
40 or older	36	2.86	39	3.01	22	1.67

Source: OIG analysis of Board-provided data.

^aPercentage of the total demographic group in the workforce for that year.

^bOther includes (1) Native Hawaiian or Other Pacific Islander (Not Hispanic or Latino), (2) American Indian or Alaska Native (Not Hispanic or Latino), (3) Two or More Races/Ethnicities (Not Hispanic or Latino), and (4) Not Specified (i.e., individuals who chose not to disclose demographic data).


Appendix I

Management's Response



BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, DC 20551

OFFICE OF THE
CHIEF OPERATING OFFICER

DATE: March 30, 2015
TO: Mark Bialek, Inspector General
FROM: Don Hammond, Chief Operating Officer 
SUBJECT: Response to March 19, 2015 Draft – “The Board Can Enhance Its Diversity and Inclusion Efforts”

Board staff has reviewed the above referenced draft report prepared by the Office of Inspector General (“OIG”). We appreciate the amount of work that went into the report and the opportunity to respond to its recommendations.

At the outset we would like to take the opportunity to emphasize that the Board is committed to increasing diversity and enhancing inclusion, and we believe that the evidence in the report shows some successes in that effort. For example, as noted in Figure 4 of the draft report, the representation of minorities in the Board’s mid-level and senior level positions increased in each year under review. We believe this is a clear indication of this commitment.

Upon reviewing the draft report we consider it significant that the independent consultant who analyzed the Board’s performance ratings concluded that there is “not a trend of statistically significant differences” in ratings based on race, gender, or age when the data are evaluated by job level.¹ Because performance ratings at the Board are not awarded on an agency-wide basis, agency-wide results do not provide useful information about whether employment discrimination may have occurred,² although the Board’s agency-wide results are generally positive. The independent consultant concluded that the agency-wide results across years “indicate no pattern of statistically significant differences in average performance ratings between: (a) women and men, (b) Hispanics and Whites, or (c) those age 40 or older and those younger than 40,” and that agency-wide White-African American differences were lower than those typically found in

¹ OIG draft report, dated March 19, 2015, entitled, “The Board Can Enhance Its Diversity and Inclusion Efforts,” p.98 (Appendix E, “An Analysis of Gender, Race, and Age Differences in Performance Ratings of FRB Employees: 2011-2013”).

² See *Wal-Mart Stores v. Dukes*, 131 S. Ct. 2541, 2555 (2011).

studies of performance appraisal differences.³ With respect to the more relevant job-level analyses, the independent consultant concluded that there is no trend of statistically significant differences between White and African American performance ratings when the data are analyzed at the job level.⁴ Similarly, all White-Asian differences disappeared when the data were analyzed at the job level.⁵ It is also important to keep in mind that, as stated in the independent consultant's analysis, differences in performance ratings could be due to a wide variety of explanations. The independent consultant also suggested a number of measures that could be taken to assess an agency's performance rating system process and content. Management will keep these in mind as we evaluate our performance appraisal system.

Although the Board's results are positive, management is fully committed to making further improvements in its diversity and inclusion efforts given the utmost importance of providing a work environment that is free of employment discrimination and that supports the engagement of all employees. In this regard we note that the OIG has recommended several additional improvements to the Board's diversity and inclusion efforts. Management generally agrees with the OIG's recommendations and, in a number of instances, has already implemented, or has begun to implement, changes to address them. Each OIG recommendation, and management's response, is discussed in more detail below.

OIG Recommendations and Management's Response

Recommendation 1: Develop and implement an alternative method for collecting the demographic data of economic and research assistant applicants to improve the response rate.

Management's Response: Management agrees with this recommendation and, as the OIG notes, in 2013, management began implementing a new process to automatically request self-disclosure of demographic information within 24 hours of obtaining an economist applicant's email address. Management will assess whether this change provides a significant improvement in response rates, and if not will consider other changes in order to obtain demographic data for economist and research assistant applicants.

Recommendation 2: Ensure that the demographic data for all internal and external officer applicants are maintained in the Board's centralized applicant database.

Management's Response: Management agrees with this recommendation and, as the OIG notes, in 2014, management implemented a process to track all officer positions through a centralized applicant database. This process will allow management to accumulate demographic data and measure trends in diversity at the officer-applicant

³ *Id.*

⁴ *Id.*

⁵ *Id.* at 94.

level. Although this process does not currently fully capture applicant data when an executive search firm is used to recruit officer candidates, management plans to implement a process in the near future to capture this data.

Recommendation 3: Consider conducting annual analyses of the distribution of employee performance ratings to identify whether patterns exist that may indicate unfair or unequal treatment. If the analyses reveal patterns that may indicate unfair or unequal treatment, determine whether any actions are necessary.

Management's Response: Management agrees that a periodic analysis focused on areas where management has potential concerns may be useful. Management will consider establishing a process for identifying such areas and determining what type of statistical review would be warranted, and if statistically significant discrepancies are found from such analyses, will explore steps that may be appropriate to address those discrepancies. It is unclear whether the costs of paying for an annual statistical analyses on a Board-wide basis or even on the basis of job level provide corresponding value.

Recommendation 4: Ensure that aggregate non-EEO case statistics are provided to all Division Directors and that division-specific statistics are provided to the respective Division Director.

Management's Response: Management agrees with this recommendation and, as the OIG notes, in 2014 management began providing Division Directors with a non-EEO trend statistics report and we will continue to do so on a quarterly basis.

Recommendation 5: Finalize and implement the Board's diversity and inclusion strategic plan, and ensure that: (a) the plan incorporates the agency's overall diversity and inclusion objectives; and (b) key elements of the plan are included in the Board's 2016–2019 agency strategic plan.

Management's Response: Management agrees with this recommendation to finalize the diversity and inclusion strategic plan currently being developed, as noted in the OIG report. The OMWI Director is a member of the Board's 2016-19 strategic plan workgroup, ensuring that the key elements of the diversity and inclusion plan are included.

Recommendation 6: Formalize the standards the OD&I relies on for equal employment opportunity and the racial, ethnic, and gender diversity of the workforce and the senior management of the agency.

Management's Response: The standards will be formalized and incorporated in the diversity and inclusion strategic plan which is currently under development and scheduled for issuance in 2015.

Recommendation 7: Ensure that No FEAR Act training: (a) is offered on a regular basis; (b) is tailored to the Board and includes EEO and diversity and inclusion topics in accordance with the Board's *No FEAR Act Written Training Plan*; (c) is evaluated for effectiveness and that any improvements identified are incorporated into the training as needed; and (d) attendance records are retained.

Management's Response: Management agrees with this recommendation and notes that the Board has historically offered No FEAR Act training on a regular basis. Management recognizes that there was one instance in which No FEAR training was not offered during the planned year because of a procurement issue; the Board resolved this discrepancy by providing No FEAR Act training in October of 2014. Going forward, management agrees that it continues to be important to provide No FEAR Act training on a regular basis and to evaluate the training for effectiveness. Management also will explore methods of evaluating the effectiveness of training and incorporating improvements. Finally, while management has historically monitored employees to ensure they complete the training, management has not typically retained evidence of completion at the Board. Rather, such records have been held by the vendor that provides the training materials. The Board will consider providing in its contract for these services that the vendor provide the Board with evidence of employees' completion of training.

Recommendations 8-10: Document the roles and responsibilities of the OD&I and distribute to all Board divisions; Partner with divisions to cooperatively develop strategies and initiatives that will help advance diversity and inclusion throughout the Board; and work with divisions to finalize and implement the quarterly reporting tool and establish a schedule to communicate the results for each division to the respective Division Director. The quarterly reporting tool should include diversity and inclusion activities for each division with clear goals, objectives, and corresponding measures.

Management's Response: Management agrees with these recommendations; however, it should be noted that the mission and objectives of OD&I are updated annually as part of the Board's budget process. Management will take steps to increase the divisions' awareness of OD&I's role and responsibilities. Also, each division, has a designated EEO Officer as Liaison to OD&I. A new quarterly reporting tool for divisions aimed at establishing specific diversity and inclusion strategies and initiatives will be implemented in the second quarter. The new tool slated for the second quarter will strengthen the strategic direction of diversity and inclusion and provide transparency and accountability for achievement of objectives.

Recommendation 11: Strengthen internal controls for reporting MD-715 data, to include: (a) documenting the methodology for extracting and filtering the appropriate data; and (b) verifying the accuracy and completeness of the data in the MD-715 report prior to submission.

Management's Response: Although the very low error rate in reporting these data (less than 0.8 percent) suggests that data reporting errors were not a significant problem, management agrees that it is always useful to take steps to ensure that data are reported as completely and accurately as possible. Thus, management agrees to take the steps noted by the OIG to provide an enhanced data reporting process.



OFFICE OF INSPECTOR GENERAL

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
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