

Board of Governors of the Federal Reserve System

The Board Can Strengthen Its Hiring Practices to Help Mitigate Bias and Reinforce Its Commitment to Ensuring a Diverse Workforce



Office of Inspector General

Board of Governors of the Federal Reserve System
Consumer Financial Protection Bureau



Executive Summary, 2024-MO-B-017, September 25, 2024

The Board Can Strengthen Its Hiring Practices to Help Mitigate Bias and Reinforce Its Commitment to Ensuring a Diverse Workforce

Findings

The Board of Governors of the Federal Reserve System has followed certain leading practices to cultivate a diverse workforce. Specifically, the People, Strategy and Operations group (PSO) helps divisions identify a diverse pool of qualified applicants by conducting outreach to diverse hiring platforms and tracks hiring data at each stage of the hiring cycle. However, during the 2018 through 2022 period, the Board’s applicant pool became less diverse during the last two stages of the hiring cycle.

PSO faces challenges in implementing certain Boardwide hiring practices, such as anonymizing résumé data and mandating Boardwide training for hiring managers, and it does not have comprehensive, written guidance that divisions can follow that covers all aspects of the hiring process. Further, for certain hiring actions, strategy sessions were not consistently held with hiring managers to discuss leading practices for hiring a diverse workforce. Finally, PSO has not implemented clear and complete procedure steps for collecting applicant demographic data, which is used to track applicant demographics, address diversity gaps, and develop reports for Congress.

Recommendations

Our report contains seven recommendations designed to strengthen the Board’s hiring process and practices related to workforce diversity. In response to our draft report, the Division of Management concurs or generally concurs with our recommendations and outlines actions that have been or will be taken to address our recommendations. We will follow up to ensure that the recommendations are fully addressed.

Purpose

We conducted this evaluation to identify the extent to which the Board’s hiring policies, procedures, and practices affect workforce diversity. We examined hiring actions from January 1, 2020, through December 31, 2022, as well as Board applicant and workforce demographic data from January 1, 2018, through December 31, 2022.

Background

The Board’s mission is to promote a strong economy for the American people by fostering the stability, integrity, and efficiency of the nation’s monetary, financial, and payment systems. Attracting, developing, and retaining a diverse workforce with varied experiences and perspectives will help the Board to successfully meet its mission.

The Board’s *Diversity, Equity, and Inclusion Strategic Plan 2022–25* reflects the Board’s strategic focus on diversity, equity, and inclusion. The plan includes strategic objectives related to attracting and hiring a highly skilled and diverse workforce.



Recommendations, 2024-MO-B-017, September 25, 2024

The Board Can Strengthen Its Hiring Practices to Help Mitigate Bias and Reinforce Its Commitment to Ensuring a Diverse Workforce

Finding 1: The Board Should Address Challenges to Implementing Boardwide Hiring Practices

Number	Recommendation	Responsible office
1	Develop and execute a plan with time frames to implement hiring practices Boardwide, such as anonymizing résumés, mandating the existing “Effectively Hiring Top Talent Without Bias” training for hiring managers, or adopting other, similar measures to reduce the risk of bias in the hiring process. If resource, budgetary, or cultural challenges persist, develop and execute a plan to address those challenges and implement hiring practices to reduce the risk of bias in the hiring process.	Division of Management and Office of the Chief Operating Officer

Finding 2: PSO and ODEI Should Issue Comprehensive Boardwide Guidance That Supports Hiring a Diverse Workforce

Number	Recommendation	Responsible office
2	Coordinate to develop comprehensive Boardwide guidance that has baseline expectations and that covers the entire hiring process, including the hiring panel selection process, candidate selection process, and strategies for hiring without bias.	Office of the Chief Operating Officer and Division of Management

Finding 3: The Board Should Implement a Policy on Strategy Sessions to Ensure That PSO Discusses Leading Diversity Practices for Hiring With Hiring Managers

Number	Recommendation	Responsible office
3	Develop and implement a policy requiring that strategy sessions be conducted and documented for nonofficer job postings unless a hiring manager participated in a recent session for a similar posting. For similar postings, determine the appropriate amount of time after which another strategy session should be held.	Division of Management and Office of the Chief Operating Officer
4	Update the strategy session template to ensure that leading practices for hiring a diverse workforce are discussed during strategy sessions, including using diverse hiring panels, balancing internal and external job postings, using neutral and unbiased language in job postings, and using a standard interview process.	Division of Management

Finding 4: PSO Should Implement Controls Over the Quarterly Applicant Data Collection Process

Number	Recommendation	Responsible office
5	Document procedure steps with clear roles and responsibilities for the applicant data collection process so that it can be repeated.	Division of Management

Number	Recommendation	Responsible office
6	Automate internal controls to remove duplicate records within the applicant data collection process.	Division of Management
7	Develop a review process for the final applicant flow data extract report to ensure the data are valid, complete, and accurate prior to reporting.	Division of Management



Office of Inspector General

Board of Governors of the Federal Reserve System
Consumer Financial Protection Bureau

MEMORANDUM

DATE: September 25, 2024

TO: Distribution List

FROM: Michael VanHuysen 
Associate Inspector General for Audits and Evaluations

SUBJECT: *OIG Report 2024-MO-B-017: The Board Can Strengthen Its Hiring Practices to Help Mitigate Bias and Reinforce Its Commitment to Ensuring a Diverse Workforce*

We have completed our report on the subject evaluation. We conducted this evaluation to identify the extent to which the Board of Governors of the Federal Reserve System’s hiring policies, procedures, and practices affect workforce diversity.

We provided you with a draft of our report for review and comment. In your response, you concur or generally concur with our recommendations and outline actions that have been or will be taken to address our recommendations. We have included your response as appendix D to our report.

We appreciate the cooperation that we received from the Division of Management and the Office of the Chief Operating Officer. Please contact me if you would like to discuss this report or any related issues.

cc: Donna Butler
Craig Delaney
Stephen J. Bernard

Distribution:

Patrick J. McClanahan, Chief Operating Officer
Winona H. Varnon, Director, Division of Management
Tameika Pope, Chief Human Capital Officer
Sheila Clark, Chief Diversity Officer



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Introduction

Objective

Our objective was to identify the extent to which the Board of Governors of the Federal Reserve System’s hiring policies, procedures, and practices affect workforce diversity. The Board tracks workforce demographics for race, ethnicity, and gender. As such, we focused on two aspects of diversity—race and ethnicity—because the data we reviewed indicated a decline in racial and ethnic diversity as applicants moved through the hiring cycle. We did not observe a similar decline in gender diversity. Further, we acknowledge that diversity encompasses many other facets and that initiatives and activities beyond the scope of our review also contribute to workforce diversity.

To achieve our objective, we analyzed the Board People, Strategy and Operations group’s (PSO) policies and guidance. We also reviewed hiring procedures and guidance and interviewed Board personnel from the 10 Board divisions within our scope.¹ We examined a nonstatistical quota sample of 98 hiring actions from January 1, 2020, through December 31, 2022. Specifically, we focused on the Board’s hiring process and guidance to assess the extent to which the Board followed leading practices. Management decisions on individual hiring actions were beyond our scope. We also examined applicant and workforce demographic data from January 1, 2018, through December 31, 2022.² We reviewed published reports and articles to identify what we consider to be leading practices for hiring a diverse workforce. In addition, we benchmarked with two Federal Reserve Banks and one peer federal agency. Details on our scope and methodology are provided in appendix A.

Background

The Board’s mission is to promote a strong economy for the American people by fostering the stability, integrity, and efficiency of the nation’s monetary, financial, and payment systems. The Board’s *Diversity, Equity, and Inclusion Strategic Plan 2022–25* states that attracting, developing, and retaining a diverse workforce with varied experiences and perspectives will help the Board to successfully meet its mission. Further, Chair Jerome H. Powell expressed, in the Board’s *Strategic Plan 2024–27*, that diversity is a hallmark of successful organizations and that the Board serves the public more effectively when the workforce reflects the diversity of the nation.

Section 10 of the Federal Reserve Act grants the Board broad authority and independence over matters of employment.³ As such, the Board is generally not subject to the personnel provisions of title 5 of the

¹ We did not include the Board’s economics divisions—the Divisions of Financial Stability, International Finance, Monetary Affairs, and Research and Statistics—in our assessment of the Board’s hiring practices because PSO does not recruit for the economist and research assistant positions in those divisions. We plan to conduct a separate evaluation of the economics divisions’ hiring practices. We also did not review the Office of Inspector General for the purpose of objectivity.

² Applicant demographic data include the available demographic data of candidates applying to Board positions. Workforce demographic data include demographic data for the Board’s permanent workforce. The workforce demographic data we analyzed include all Board divisions so that it represents the Board’s entire permanent workforce.

³ 12 U.S.C. § 244.

United States Code, including those relating to recruiting and hiring. However, as part of its employment rules, the Board has adopted equal employment opportunity provisions that prohibit employment discrimination. Additionally, section 342 of the Dodd-Frank Wall Street Reform and Consumer Protection Act directs the Board of Governors to develop standards for equal employment opportunity and for racial, ethnic, and gender diversity in the Board’s workforce and the senior management of the agency. Finally, Executive Order 14035, *Executive Order on Diversity, Equity, Inclusion, and Accessibility in the Federal Workforce*, urges federal agencies to cultivate a workforce that draws from the full diversity of the nation. This order also establishes that diversity, among other factors, is a priority and benefits the entire federal government and nation.⁴

Board Structure and Authority for Human Capital Activities

Under the Federal Reserve Act, the Board can delegate most of its functions to Board employees.⁵ Under the administrative governor’s delegations of authority, the administrative governor delegates to the chief operating officer (COO) responsibility for overseeing the Board’s operations and resources, including developing and implementing management policies.

Through the COO’s delegations of administrative authority, the COO has further delegated some of these responsibilities to senior Board officials.

- The director of the Division of Management formulates, approves, and implements policies related to personnel management.
- The chief human capital officer (CHCO) oversees the Board’s operations and resources related to personnel management.
- The chief diversity officer for the Office of Diversity, Equity and Inclusion (ODEI) formulates and approves, in consultation with the director of the Division of Management or the director of the Division of Financial Management, as appropriate, and the Legal Division, management policies relating to workforce and supplier diversity.

Although the COO has delegated the above responsibilities, the Board has a decentralized structure in which divisions can often operate independently to achieve their objectives. This decentralized structure has historically made it challenging to implement Boardwide initiatives. As we noted in a 2017 report, *The Board’s Organizational Governance System Can Be Strengthened*, these challenges are driven in part by attempts to reach consensus before implementing Boardwide initiatives.⁶

⁴ The White House, *Executive Order on Diversity, Equity, Inclusion, and Accessibility in the Federal Workforce*, Executive Order 14035, June 25, 2021. While Executive Order 14035 is not applicable to independent federal agencies like the Board, the Board has committed to ensuring equality in all aspects of employment and to fostering diversity and inclusion in the workplace.

⁵ Section 11(k) of the Federal Reserve Act authorizes the Board to delegate most of its functions (other than those relating to rulemaking or monetary and credit policies) to administrative law judges, members or employees of the Board, or the Reserve Banks.

⁶ Office of Inspector General, *The Board’s Organizational Governance System Can Be Strengthened*, [2017-FMIC-B-020](#), December 11, 2017.

Board Hiring Policies and Guidance

PSO follows the Board’s *Vacant Position Posting Policy* and has developed processes and procedures related to hiring and recruiting, including the *Recruiting Process and Service Level Understanding* and *Officer Actions Process Standard Procedures*. PSO works with divisions to execute these processes and procedures.

- The Board’s *Vacant Position Posting Policy* establishes requirements for posting vacancies, including eligibility requirements for internal applicants and division posting requirements.
- PSO’s *Recruiting Process and Service Level Understanding* describes the standard recruiting workflow PSO and divisions follow and the roles and responsibilities of stakeholders in the Board’s recruiting process, including division partners, the talent acquisition specialist, and the hiring manager.
- PSO’s *Officer Actions Process Standard Procedures* outlines required steps, quality standards, and roles and responsibilities for the officer hiring actions process.⁷

In addition, PSO offers a training on mitigating bias in the hiring process to all Board divisions. The training, “Effectively Hiring Top Talent Without Bias,” reviews key concepts such as the effects of unconscious bias on hiring and outreach efforts and the value of structured interviews.

The Board’s Human Capital and Diversity Functions Related to Recruiting and Hiring

The Board’s human capital and diversity functions related to recruiting and hiring include the Division of Management’s PSO and its Talent Acquisition section, as well as the Office of the Chief Operating Officer’s ODEI (figure 1).

⁷ For the purposes of our report, *officers* refer to executive-level officials at the Board who have the titles of director, deputy director, associate director, assistant director, or advisor and are at the FR-00 pay grade.

Figure 1. The Board’s Human Capital and Diversity Functions Related to Recruiting and Hiring



Source: Compiled by the OIG based on Board documents.

The Board’s Strategic Objectives Related to Hiring a Diverse Workforce

The Board recognizes the importance of diversity to achieving its mission. In 2022, the Board chair emphasized in a message to Board employees that diversity remains a high priority and that a diverse workforce helps organizations make better decisions. Further, the Board’s *Strategic Plan 2024–27* states that the Board is committed to ensuring a diverse workforce and an environment of inclusion and respect at all levels of the organization.⁸

The Board’s *Diversity, Equity, and Inclusion Strategic Plan 2022–25* establishes the agency’s strategic objectives related to attracting and hiring a highly skilled and diverse workforce, including

- assessing current talent management programs to identify diversity, equity, and inclusion gaps and barriers
- attracting highly qualified and diverse slates of applicants and candidates through strategic outreach and talent acquisition that connects with all segments of society

According to the Board’s *Diversity, Equity, and Inclusion Strategic Plan 2022–25*, *diversity* refers to all the characteristics that make individuals different from one another. It represents the collective mixture of differences around race, color, ethnicity, religion, sex, gender identity, national origin, age, disability, sexual orientation, values, beliefs, experiences, backgrounds, preferences, and behaviors that makes each person unique.

The Board’s Recruiting and Hiring Process

The hiring process begins when a division identifies a need and prepares a job posting that outlines the requirements for the position and the preferred skill sets. Once a division creates a job posting, ODEI or

⁸ Board of Governors of the Federal Reserve System, *Strategic Plan 2024–27*, December 2023.

PSO conducts a strategy session with the division to discuss the hiring strategy, including the job description, the recruitment strategy, and potential interview panelists.⁹

After a strategy session is held, the hiring process follows four stages.

1. **Applicant stage.** PSO's talent acquisition specialist posts the position to a variety of sources to obtain the applicant pool.
2. **Referral stage.** PSO's talent acquisition specialist reviews applications and refers eligible applicants to the division's hiring manager for review.
3. **Interview stage.** The division's hiring manager reviews the eligible applicants, selects interviewees, and conducts the interviews.
4. **Hiring stage.** The division's hiring manager submits their applicant selection to PSO's talent acquisition specialist, who extends an offer to the candidate on behalf of the division's hiring manager.

PSO uses an applicant tracking system to collect and track data during the four stages of the hiring cycle. The system tracks applicants through the four-stage process, collects applicant demographic data, and maintains hiring metrics.

The Board's Workforce Diversity

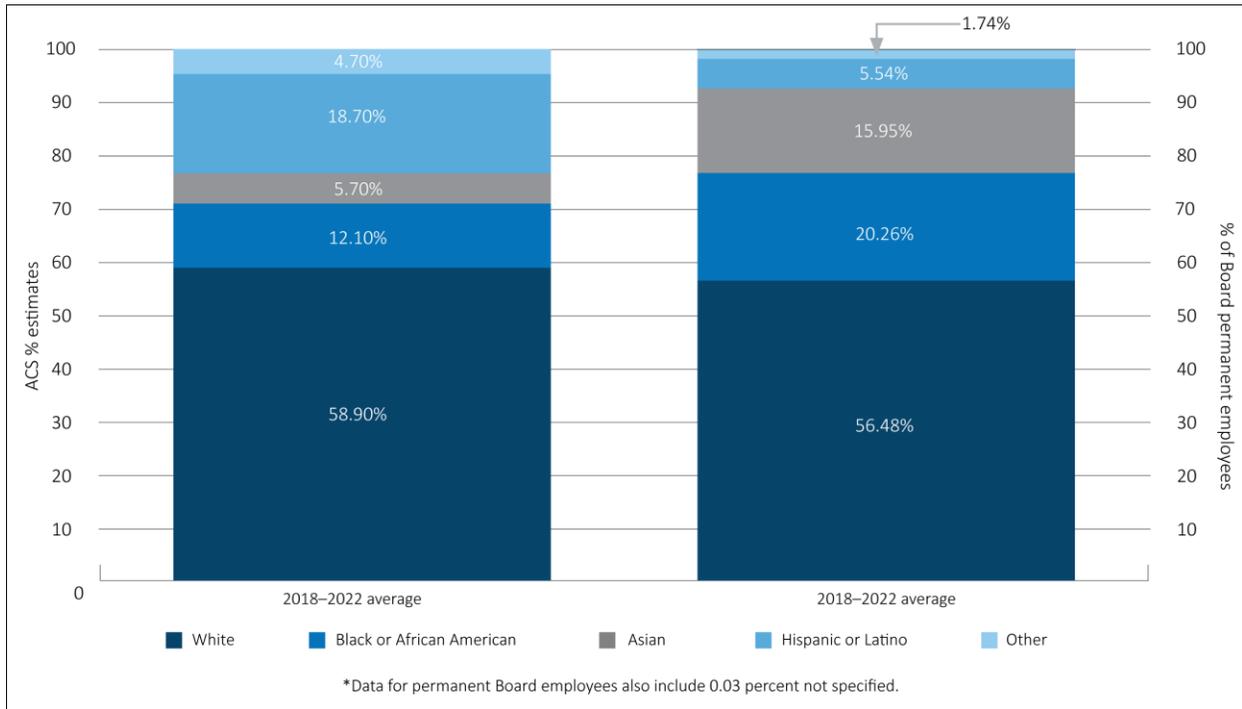
The U.S. Office of Personnel Management highlights the importance of diversity by stating that to provide high-quality, responsive, and equitable services for the public, the workforce should be reflective of American society. The American Community Survey (ACS) is an ongoing survey that the U.S. Census Bureau uses to collect demographic information about the population, such as age, sex, and race. We used the ACS data as a benchmark to compare the Board's workforce to the American population.¹⁰

For the 2018 through 2022 period, we compared the ACS average demographic data to the Board's average workforce data. The Board and the ACS populations generally aligned for the White demographic group. However, the Board's workforce included a higher percentage for the Black or African American and Asian demographic groups as compared with the ACS data but a lower percentage for the Hispanic or Latino demographic group. The ACS 5-year average for the Hispanic or Latino demographic group was 18.7 percent, and the Board's 5-year average was 5.54 percent (figure 2).

⁹ ODEI conducts strategy sessions for officer hires, and PSO conducts strategy sessions for nonofficer hires.

¹⁰ We selected the ACS as a means to determine whether the Board's workforce reflects American society because it provides up-to-date estimates on population characteristics that are used by other agencies to inform public policymakers. We did not use the ACS average demographic data to assess the Board's recruitment and outreach activities. We acknowledge that the Board uses the U.S. Census Bureau's Industry and Occupation Classification Codes, as well as the U.S. Equal Employment Opportunity Commission's Federal Employment Data Tools and Reports, to assess its workforce demographic data for all job categories to inform recruiting and outreach activities.

Figure 2. ACS Average Demographic Data and Board Average Demographic Data, by Race and Ethnicity, 2018–2022



Source: OIG analysis based on Board workforce and ACS data.

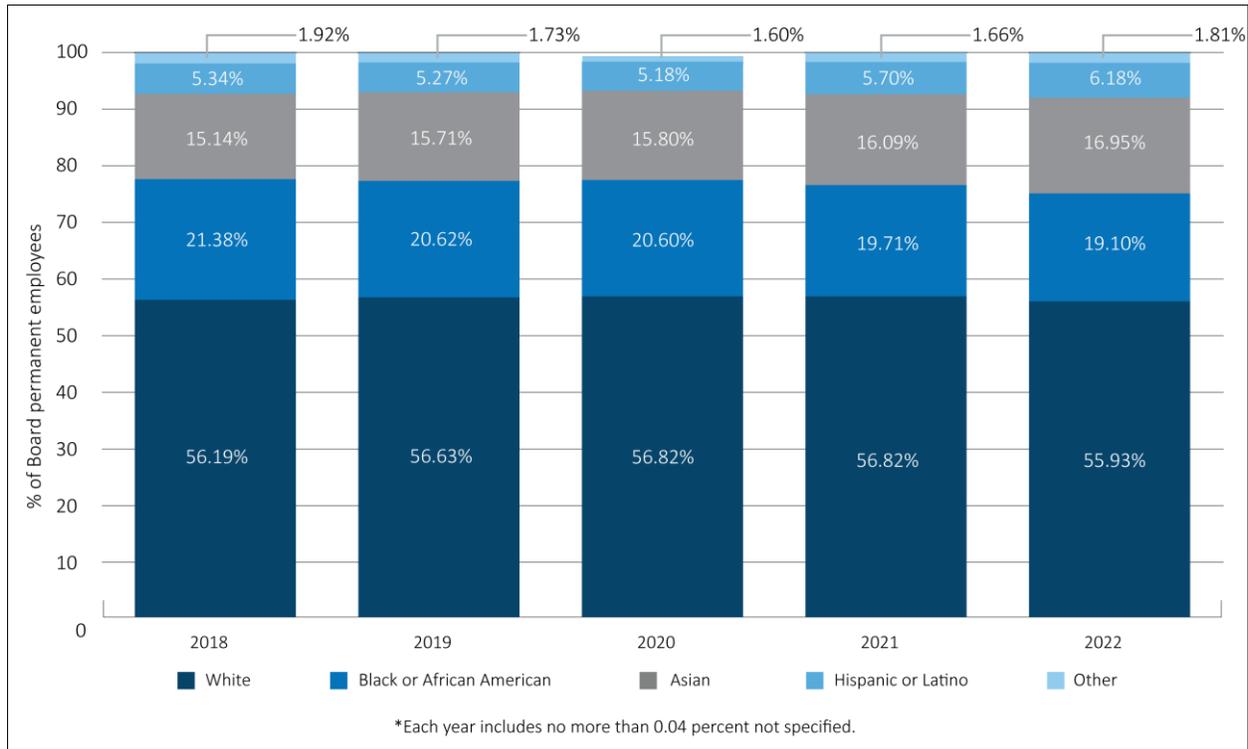
Note: For the purposes of this report, we grouped the following race and ethnicity categories as *Other* because of the small number of individuals typically represented in each: (1) Native Hawaiian and Pacific Islander, (2) American Indian and Alaska Native, and (3) two or more races, when applicable.

We also analyzed the Board’s 2018 through 2022 permanent workforce data by race and ethnicity and found that the Board’s workforce diversity generally remained the same throughout the period (figure 3).¹¹ Specifically, the White demographic group and the Other demographic group generally remained the same. The Black or African American demographic group decreased slightly over the period, and the Hispanic or Latino and Asian demographic groups increased slightly.¹²

¹¹ See appendix B for additional workforce demographic data.

¹² Our analysis of workforce demographic data includes all Board divisions so that it represents the Board’s entire permanent workforce.

Figure 3. Permanent Board Employees, by Race and Ethnicity, 2018–2022



Source: OIG analysis based on Board workforce.

Note: For the purposes of this report, we grouped the following race and ethnicity categories as *Other* because of the small number of individuals typically represented in each: (1) Native Hawaiian and Pacific Islander, (2) American Indian and Alaska Native, and (3) two or more races, when applicable.

Leading Practices Related to Hiring a Diverse Workforce

Public, private, and academic organizations, such as the U.S. Government Accountability Office (GAO), Harvard Human Resources,¹³ and *Forbes*, have published reports and articles related to incorporating practices that support hiring and recruiting a diverse workforce. These practices support other aspects of diversity beyond our focus areas of race and ethnicity. We analyzed key themes included in these publications and identified four leading practices for cultivating a diverse workforce, along with supporting actions (table 1). See appendixes A and C for the organizations and the materials that we reviewed.

¹³ Harvard Human Resources is a team of human resources professionals that work together with leaders and colleagues across Harvard University to support the effectiveness and productivity of their organization in areas such as career, professional, and leadership development; organizational and team development; and talent and performance management.

Table 1. Leading Practices and Supporting Actions Related to Recruiting and Hiring a Diverse Workforce

Practice	Supporting actions
Collect and analyze hiring data to measure the effectiveness of diversity hiring efforts.	<ul style="list-style-type: none">• Track applicant diversity at each stage of the hiring process.
Encourage leadership to commit to improving diversity efforts.	<ul style="list-style-type: none">• Demonstrate leadership’s commitment to diversity initiatives and hold leaders and managers accountable to support the success of diversity efforts.• Provide training on reducing bias in the recruitment and hiring process.
Implement hiring processes that help to mitigate bias.	<ul style="list-style-type: none">• Standardize the interview process by using structured interviews and scoring systems.• Use diverse hiring panels.• Remove certain information from résumés, such as name and school attended, before review.
Encourage a diverse pool of applicants.	<ul style="list-style-type: none">• Post jobs to diverse platforms and perform targeted outreach.• Balance internal and external posting to broaden the diversity of the applicant pool.• Consider the length of time a job posting is open.• Use neutral and unbiased language in job postings.

Source: OIG analysis of publications.



Finding 1: The Board Should Address Challenges to Implementing Boardwide Hiring Practices

From 2018 through 2022, the Board’s applicant pool became less diverse during the last two stages of the hiring cycle. Division hiring managers control the candidate progression and selection decisions during these two stages, not PSO. Practices such as anonymizing résumé data and requiring training for hiring managers could help to mitigate the risk of bias during these stages. However, PSO has determined that implementing these practices is not feasible for various reasons, including budget constraints, technology considerations, and a potential lack of support from hiring divisions. We believe that these challenges, coupled with the historical challenges related to the Board’s decentralized structure and consensus-driven culture, have prevented PSO from implementing these practices. Support from Board leadership is needed to develop momentum to implement additional leading practices or other measures to reduce the risk of bias in the latter part of the hiring process.

The Board Followed Certain Leading Practices for Cultivating a Diverse Workforce

The Board followed certain leading practices related to cultivating a diverse workforce. Specifically, PSO conducts outreach to various networks and tracks applicant demographic data at each stage of the hiring cycle. In addition, ODEI aggregates applicant demographic data through quarterly dashboard reports.

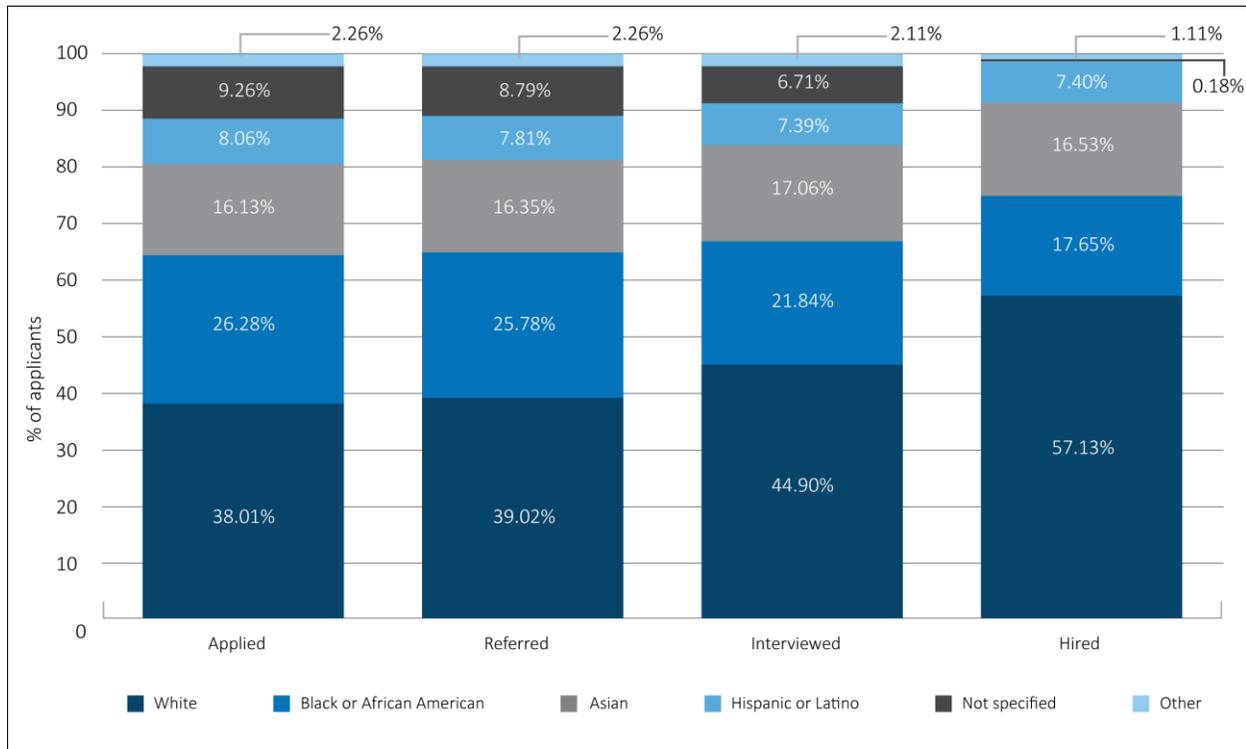
The Board Conducts Outreach to Diverse Platforms

PSO helps divisions identify a diverse pool of qualified applicants by posting on various job boards, social media platforms, and diversity networks. In addition, PSO hosts virtual and onsite events with colleges and universities, including Hispanic-Serving Institutions and Historically Black Colleges and Universities, as well as with various professional associations with targeted demographics.

According to our review of leading practices, agencies should intentionally post jobs to specialized platforms and underrepresented groups to encourage a diverse applicant pool. Additionally, organizations should identify universities or community colleges that educate the types of students an agency wants to hire. The Board appears to be following this leading practice through its outreach efforts during the initial stages of the hiring process.

PSO staff noted that the Board’s applicant pools are diverse, and we confirmed that the first stage of the hiring cycle was the most diverse stage for Board applicants from 2018 through 2022 (figure 4).

Figure 4. Board Applicant Pool Composition Through the Hiring Cycle, by Race and Ethnicity, 2018–2022



Source: OIG analysis based on Board applicant data.

Note: *Not specified* indicates that the applicant did not provide their race and ethnicity. For the purposes of this report, we grouped the following race and ethnicity categories as *Other* because of the small number of individuals typically represented in each: (1) Native Hawaiian and Pacific Islander, (2) American Indian and Alaska Native, and (3) two or more races, when applicable.

The Board Tracks Hiring Data at Each Stage of the Hiring Cycle

PSO collects applicant demographic data through the Board’s applicant tracking system. PSO compiles these data into an applicant flow data extract report for ODEI, and ODEI uses this report to develop a quarterly applicant dashboard report. This dashboard report includes demographic data from all stages of the hiring cycle—applicant, referral, interview, and hiring—and helps to identify changes in the diversity of the applicant pool throughout the hiring cycle. ODEI then shares this information with Board divisions.

According to our review of leading practices, organizations should measure success at each stage of the hiring cycle, isolate diversity concerns, and identify ways to improve to ensure that applicant pools are diverse throughout the hiring cycle. In addition, tracking data at each stage of the hiring process allows organizations to understand whether diversity gaps exist at any stage. Further, tracking data allows organizations to evaluate the progress and effectiveness of their diversity management efforts.

The Applicant Pool Became Less Diverse in the Latter Stages of the Hiring Cycle

We reviewed the Board’s aggregate applicant data from 2018 through 2022 and found that the applicant pool became less diverse as it proceeded through the four stages of the hiring cycle (figure 4).¹⁴

¹⁴ See appendix B for additional applicant demographic data.

Specifically, while White applicants accounted for approximately 38 percent of total applicants, they accounted for approximately 39 percent of applicants in the referral stage, approximately 45 percent of applicants in the interview stage, and approximately 57 percent of those hired. As much as approximately 9 percent may be attributable to the decrease of applicants in the *Not specified* race and ethnicity category during the hiring process. However, the remaining almost 10 percent increase in White applicants hired is noteworthy given the decrease in Black or African American applicants from the applicant phase to the hiring phase.

As shown above, the diversity of applicants changes significantly during the interview and hiring stages, which is when hiring managers are making the decisions, not PSO. Although we believe that PSO could implement certain practices Boardwide to reduce bias at these stages, it has determined that challenges such as budget constraints, technology considerations, and a potential lack of support from hiring divisions would hinder it from doing so.

Challenges May Prevent PSO From Implementing Certain Boardwide Hiring Practices

Even though the Board stated its commitment to ensuring a diverse workforce at all levels of the organization in its *Strategic Plan 2024–27*, PSO faces challenges to implementing certain hiring practices Boardwide. Practices such as anonymizing résumés and mandating its existing “Effectively Hiring Top Talent Without Bias” training could help reduce bias during the latter stages of the hiring process, when applicant diversity significantly decreases.

Challenges to Anonymizing Résumé Data

PSO staff informed us that PSO does not remove identifying information from applicant résumés because it does not have an automated tool for that purpose, and manually removing the information would be resource intensive. A PSO official acknowledged the potential benefits of removing identifying information from applicant résumés but cited resource and budgetary constraints as impediments to doing so. The official also stated that anonymizing résumés would be a significant cultural shift for the Board; hiring managers in some divisions prefer to see certain identifying information, such as the academic institutions an applicant attended.

According to our review of leading practices, removing information that signals age, ethnicity, race, or other factors from applications and résumés minimizes the potential effect of unconscious bias. The absence of such signaling information helps reviewers focus on a candidate’s qualifications and experience. Recruiters at a Reserve Bank we benchmarked with remove such information before sending résumés to the hiring manager.

Challenges to Mandating Training for Hiring Managers

PSO offers the “Effectively Hiring Top Talent Without Bias” training, which reviews key concepts such as the effects of unconscious bias on hiring and outreach efforts and the value of structured interviews. However, a PSO official highlighted challenges to mandating this training for hiring managers, specifically with respect to obtaining division leadership support for such a mandate. The PSO official informed us

that PSO cannot require that division hiring managers take training and that the divisions have autonomy to implement their own hiring initiatives.

A leading practice states that organizations should provide mandatory training to all hiring managers and employees involved in the recruitment process that focuses on strategies for mitigating bias. In addition, a peer federal agency we benchmarked with requires training on reducing bias for all interviewers involved in the hiring process.

Additional Senior Leadership Support Is Needed to Overcome Identified Challenges

The Board has not adopted two leading practices to reduce bias in the hiring process—anonymizing résumé information and mandating training to reduce bias in the interviewing and hiring stages of the hiring process. A Reserve Bank and a peer federal agency have adopted those measures. We believe that the challenges to implementing these leading practices, coupled with the historical challenges of the Board’s decentralized structure and consensus-driven culture, affects PSO’s ability to help reduce the risk of bias during the two hiring process stages in which applicant diversity declines.

As previously stated, the Board communicated its commitment to ensuring a diverse workforce at all levels of the organization in its *Strategic Plan 2024–27*. However, additional support from senior leadership is needed to overcome these challenges and to build support for additional measures to reduce the risk of bias. Consistently communicating support and committing resources to implement leading practices will demonstrate leadership’s commitment to cultivating a diverse workforce.

Recommendation

We recommend that the director of the Division of Management and the COO, in consultation with the appropriate oversight governors,

1. Develop and execute a plan with time frames to implement hiring practices Boardwide, such as anonymizing résumés, mandating the existing “Effectively Hiring Top Talent Without Bias” training for hiring managers, or adopting other, similar measures to reduce the risk of bias in the hiring process. If resource, budgetary, or cultural challenges persist, develop and execute a plan to address those challenges and implement hiring practices to reduce the risk of bias in the hiring process.

Management Response

In response to our draft report, the director of the Division of Management concurs with our recommendation. The response states that beginning in calendar year 2025, PSO will offer more sessions per year of the “Effectively Hiring Top Talent Without Bias” training and will record the training to offer an on-demand version. In addition, the director of the Division of Management and the CHCO will work with the COO to make the training mandatory for all Board leaders. PSO plans for this requirement to take effect in the first quarter of calendar year 2026.

The response also states that PSO will work with its applicant tracking system vendor to determine the ability to move its résumé anonymizing tool to a platform that is Board approved. If the solution is feasible and requires additional funding, the Division of Management will request funding through the budget process in the second quarter of 2025 and develop an implementation plan. Further, the director of the Division of Management and the CHCO will brief the Board’s Executive Committee on PSO’s initiatives to strengthen the Board’s hiring practices by the first quarter of calendar year 2025.

OIG Comment

The planned actions described by the director of the Division of Management appear to be responsive to our recommendation. We will follow up to ensure that the recommendation is fully addressed.



Finding 2: PSO and ODEI Should Issue Comprehensive Boardwide Guidance That Supports Hiring a Diverse Workforce

PSO does not have comprehensive, written guidance that covers all aspects of the hiring process. In addition, some divisions have their own division-specific policies, procedures, or guidance for the hiring process. A leading hiring practice states that organizations should create a standardized process that applies equally to all job applicants. Board officials informed us that implementing a Boardwide policy is challenging because of the consensus-driven culture at the Board. Developing comprehensive guidance with baseline expectations can help reduce inconsistencies within the Board’s hiring process and reinforce leadership’s commitment to hiring a diverse workforce.

Board Divisions Use Varying Hiring Procedures and Guidance

PSO does not have comprehensive written guidance that covers all aspects of the hiring process. We found that 6 of the 10 divisions we reviewed have varying division-specific policies, procedures, or guidance for the hiring process (table 2). The remaining 4 divisions do not have division-specific guidance and rely solely on PSO’s limited hiring guidance.

Table 2. Differences Between PSO and Division Guidance

PSO guidance	Division guidance
Guidance on the hiring panel selection process	
PSO guidance does not address hiring panel selection considerations. The “Effectively Hiring Top Talent Without Bias” training states that a hiring panel should be diverse.	Four of the 10 divisions have guidance on the hiring panel selection process, including defining what constitutes a diverse panel, identifying the benefits of using diverse hiring panels, and emphasizing the importance of using the same panelists for all candidates through each stage of the interview process.

PSO guidance**Division guidance**

Guidance on the candidate selection process

PSO guidance does not address the candidate selection process; information on this topic is included in the “Effectively Hiring Top Talent Without Bias” training. Specifically, the training includes content on reviewing résumés without bias, following a standard selection process, asking candidates the same questions, and evaluating candidates using the same standard criteria.

Three of the 10 divisions have guidance on the candidate selection process, including the use of consistent question sets for all candidates.

Guidance on attending diversity training to reduce bias in hiring

PSO guidance does not address diversity training. The “Effectively Hiring Top Talent Without Bias” training discusses the importance of standardizing the hiring process to reduce bias in decisionmaking.

One of the 10 divisions recommends that its hiring managers attend the “Effectively Hiring Top Talent Without Bias” training, and another division requires new hiring managers to take the training.

Source: OIG analysis of Board-provided documents.

PSO uses the *Officer Actions Process Standard Procedures* and *Recruiting Process and Service Level Understanding* documents to outline the roles and responsibilities of key stakeholders in the Board’s hiring process for officers and nonofficers, respectively. Beyond these documents, PSO’s guidance on strategies to hire a diverse workforce is limited to the “Effectively Hiring Top Talent Without Bias” training, which highlights some ways to minimize bias throughout the hiring process. According to a PSO staff member, ODEI collaborated with PSO to update the training in 2023 to highlight additional ways to mitigate bias. This training is not required for divisions, and hiring officials cannot easily access the training materials because PSO does not maintain a central location to access this information. We reviewed attendance documentation for the training and found that the hiring managers for 66 of the 98 (67 percent) hiring actions in our sample had no record of attending the training or any other training related to reducing bias in the hiring process.¹⁵

GAO’s *Standards for Internal Control in the Federal Government* states that management is responsible for designing policies and procedures, including roles and responsibilities, and communicating policies and procedures so that responsible personnel can execute their assigned responsibilities. The Board’s *Diversity, Equity, and Inclusion Strategic Plan 2022–25* includes action items to ensure that talent acquisition practices consistently address diversity at all levels to assist divisions in attracting, selecting, and successfully onboarding diverse talent.

According to our review of leading practices, organizations should create a standardized process that applies equally to all job applicants. In addition, a commitment from top leadership is fundamental when implementing diversity management initiatives. Specifically, when senior management communicates its commitment, it sends a clear message to others in the organization that diversity is important. For

¹⁵ We reviewed attendance sheets, meeting attendance screenshots, and other lists.

example, one of the Reserve Banks we benchmarked with has a DE&I Hub that provides a centralized location for inclusive leadership resources, which includes inclusive engagement practices and policies for hiring a diverse workforce.

Board officials informed us that divisions have autonomy in implementing hiring practices. As such, some divisions have developed and implemented their own varying hiring practices. Further, the Board’s decentralized structure and consensus-driven culture make it difficult to implement a policy or baseline expectations that apply to all Board divisions.

The absence of comprehensive Boardwide guidance for hiring practices can lead to inconsistencies in hiring practices across divisions. Similar to the way PSO and ODEI coordinated to update the hiring without bias training, we believe they should jointly develop guidance with baseline expectations to help divisions consistently use leading practices to cultivate a diverse workforce. For the hiring panel selection process, the guidance should define *diversity* and highlight the importance of having diverse perspectives as well as the importance of using the same panelists for all candidates. In addition, the guidance should highlight the candidate selection process, including using a standard interview process with structured interviews and an objective scoring system. Further, the guidance should include key concepts from the “Effectively Hiring Top Talent Without Bias” training to make the strategies for reducing bias readily accessible to hiring officials. These actions will reinforce leadership’s commitment to hiring a diverse workforce and align the agency’s approach to its hiring activities with its strategic priorities.

Recommendation

We recommend that the director of ODEI and the CHCO

2. Coordinate to develop comprehensive Boardwide guidance that has baseline expectations and that covers the entire hiring process, including the hiring panel selection process, candidate selection process, and strategies for hiring without bias.

Management Response

In response to our draft report, the director of the Division of Management generally concurs with our recommendation. The response states that in March 2024, PSO published a hiring guide, designed to streamline and enhance the interview process to assist managers with decisionmaking. In addition, PSO will create a new hiring policy and will coordinate with ODEI during the policy review process. PSO anticipates completing the policy by the fourth quarter of 2025.

OIG Comment

The planned actions described by the director of the Division of Management appear to be responsive to our recommendation. We will follow up to ensure that the recommendation is fully addressed.



Finding 3: The Board Should Implement a Policy on Strategy Sessions to Ensure That PSO Discusses Leading Diversity Practices for Hiring With Hiring Managers

We found that strategy sessions were not consistently conducted and documented for the nonofficer hiring actions we reviewed and that the strategy session templates do not highlight certain leading practices. PSO's *Recruiting Process and Service Level Understanding* document states that strategy sessions are scheduled with the hiring manager and conducted within 2 days after receiving a job posting. However, according to PSO staff, strategy sessions are not required for nonofficer positions, which we believe led to instances of strategy sessions not being held or documented. Requiring strategy sessions for nonofficer positions will provide Talent Acquisition an opportunity to discuss with hiring managers leading practices for hiring a diverse workforce. In addition, the templates used during strategy sessions could include additional leading practices, including using a diverse hiring panel, balancing internal and external job postings, using neutral and unbiased language, and standardizing the interview process.

Strategy Sessions Were Not Consistently Conducted or Documented for Nonofficer Positions

Talent Acquisition held strategy sessions for 30 of the 64 (47 percent) nonofficer hiring actions in our sample. Strategy sessions for the remaining 53 percent either did not occur or were not documented. Conversely, ODEI held strategy sessions for 97 percent of officer hiring actions in our sample.

According to PSO's *Recruiting Process and Service Level Understanding* document, strategy sessions for nonofficer positions are scheduled with a hiring manager to review the desired behavioral competencies and the posting language. The document also states that strategy sessions are conducted within 2 business days of receiving the job posting. According to PSO's *Officer Actions Process Standard Procedures*, strategy sessions for officer positions are required and are used to discuss staffing needs and diversity efforts.

PSO informed us that it offers strategy sessions to hiring managers for nonofficer positions; however, the sessions are not required. We believe that the optional nature of strategy sessions for nonofficer hiring actions led to the sessions not being held or documented consistently. In addition, PSO staff stated that multiple strategy sessions are not usually held for similar positions with the same hiring requirements and the same hiring manager.

We believe that strategy sessions are an important tool that affords Talent Acquisition an opportunity to discuss with hiring managers the importance of using inclusive posting language, selecting diverse hiring panels, and developing a consistent interview process. Similar to the requirement for officer positions,

the Board should require strategy sessions for nonofficer positions unless the same hiring manager has recently participated in a strategy session for a similar posting.

PSO Could Improve Strategy Sessions by Highlighting Additional Leading Practices for Hiring a Diverse Workforce

PSO uses a template to guide strategy session conversations. The strategy session template covers topics such as potential outreach, potential hiring panelists, and the posting strategy. We found that the template does not highlight certain leading practices, including the following:

- **Using diverse hiring panels.** The strategy session template should be updated to emphasize the importance of selecting a diverse hiring panel for the interview process. According to our review of leading practices, diverse panels achieve interview objectivity and a consistent interview experience. In addition, a Reserve Bank we benchmarked with defines *diverse panels* not only as those made up of people with diverse appearances but also those that encompass diversity of thought and diverse skill sets. The Board encourages divisions to use diverse interview panels in its “Effectively Hiring Top Talent Without Bias” training; however, as discussed, this training is not required.
- **Balancing internal and external job postings.** The strategy session template should be updated to emphasize the potential tradeoffs associated with internal-only postings. U.S. Merit Systems Protection Board guidance states that whether agencies recruit internally or externally in part determines their workforce composition. Internal-only postings limit the applicant pool and may lead to a lack of diversity. During our review, we noted that the Board posted 19 of the 98 (19 percent) job postings in our sample as internal only.
- **Using neutral and unbiased language in job postings.** The strategy session template should be updated to emphasize the benefits of neutral language, when appropriate, to potentially avoid limiting the applicant pool. According to our review of leading practices, organizations should consider whether the language used in job postings limits the applicant pool, for example, by favoring candidates with a particular background. Of the 79 job postings in our sample that were open to both internal and external candidates, 9 postings (11 percent) included what appeared to be language that could potentially favor internal candidates over external candidates. For example, we noted language requiring or suggesting a preference for an applicant with specific knowledge of Board and Federal Reserve System programs, processes, or procedures.
- **Standardizing the interview process.** The strategy template should be updated to emphasize the advantages of standardized and objective hiring practices to help reduce bias in the candidate selection process. According to our review of leading practices, interview consistency, including conducting consistently structured interviews and using consistent scoring systems, helps interviewers assess candidates objectively and consistently and helps mitigate interviewer biases. The Board encourages the use of structured interviews and an objective scoring system to rate applicants in its “Effectively Hiring Top Talent Without Bias” training; however, this training is not required.

We believe that PSO should update the template to ensure that the strategy sessions foster discussions on the above leading practices for hiring a diverse workforce.

Recommendations

We recommend that the director of the Division of Management and the COO, in consultation with the appropriate oversight governors,

3. Develop and implement a policy requiring that strategy sessions be conducted and documented for nonofficer job postings unless a hiring manager participated in a recent session for a similar posting. For similar postings, determine the appropriate amount of time after which another strategy session should be held.

We recommend that the CHCO

4. Update the strategy session template to ensure that leading practices for hiring a diverse workforce are discussed during strategy sessions, including using diverse hiring panels, balancing internal and external job postings, using neutral and unbiased language in job postings, and using a standard interview process.

Management Response

In response to our draft report, the director of the Division of Management concurs with recommendation 3 and generally concurs with recommendation 4. Regarding recommendation 3, the response states that the completion of the hiring policy referenced in recommendation 2 will include updated guidance on strategy sessions. In addition, PSO will schedule strategy sessions with all hiring managers who have not participated in a session for a similar positing within 6 months. This effort will begin in the fourth quarter of 2024.

Regarding recommendation 4, the response states PSO will update the strategy session template and the PSO hiring guide to include the leading practices identified in this report. In addition, PSO will post the updated documents to the Board's intranet. These efforts will take place in the fourth quarter of 2024.

OIG Comment

The planned actions described by the director of the Division of Management appear to be responsive to our recommendations. We will follow up to ensure that the recommendations are fully addressed.



Finding 4: PSO Should Implement Controls Over the Quarterly Applicant Data Collection Process

PSO collects applicant demographic data to share with ODEI, which uses the data to track applicant demographics, address diversity gaps, and develop reports for Congress. We were unable to reproduce any of the final applicant flow data extract reports containing applicant demographic data, and we identified duplicate records in the 2018 through 2022 data extract reports. GAO's *Standards for Internal Control in the Federal Government* states that management is responsible for designing policies and procedures, as well as reviewing control activities for effectiveness. PSO's data collection procedures document does not clearly document the procedure steps for creating the final applicant flow data extract report and does not include a managerial review step to ensure the applicant data extract reports are complete and accurate. Because the applicant demographic data are shared with internal and external stakeholders, including Congress, procedure steps for data collection must be clear and complete so the Board can be assured that the resulting information is accurate and complete.

PSO Should Document Procedure Steps With Controls for the Quarterly Applicant Data Collection Process

PSO collects applicant demographic data, including race, gender, and ethnicity, and creates a final applicant flow data extract report.¹⁶ ODEI uses this data extract report to develop and share quarterly dashboard reports with divisions and to track aggregate applicant demographic data at each stage of the hiring process. According to an ODEI official, this information is used to address diversity gaps and identify trends in the hiring process. Additionally, ODEI uses the final applicant flow data extract reports to develop the *Equal Employment Opportunity Program Status Report*,¹⁷ which is provided to Congress.

We conducted a walk-through of PSO's data collection process and found that PSO does not obtain the final applicant flow data extract report directly from the applicant tracking system; rather, a PSO staff member manually compiles the data extract report for ODEI, introducing the opportunity for error and creating a key-person dependency. We attempted to reproduce the final applicant flow data extract reports for 2018 through 2022 using PSO's data collection procedure steps. We were unable to

¹⁶ At ODEI's request, PSO manually prepares the final applicant flow data extract reports, excluding duplicates and records outside the reporting period and correcting data anomalies.

¹⁷ The *Equal Employment Opportunity Program Status Report* is a self-assessment prepared and submitted under the Equal Employment Opportunity Commission's *Management Directive 715*. The purpose of the MD-715 report is to "ensure that all employees and applicants for employment enjoy equality of opportunity in the federal workplace regardless of race, sex, national origin, color, religion, disability or reprisal for engaging in prior protected activity."

reproduce any of the final applicant flow data extract reports, and we identified duplicate records in the 2018 through 2022 data extract reports.¹⁸

GAO's *Standards for Internal Control in the Federal Government* states that management is responsible for designing policies and procedures, including roles and responsibilities, and should communicate policies and procedures so that responsible personnel can execute their assigned responsibilities. Further, management should divide or segregate key duties and responsibilities among different people to reduce the risk of error, and management should periodically review policies, procedures, and related control activities for continued relevance and effectiveness in achieving the agency's objectives. GAO also recommends that federal agencies use a variety of automated control activities, such as edit checks of data entered, because automated internal controls are less susceptible to human error and are more reliable.

PSO's data collection procedure steps are not detailed or easily repeatable. Specifically, PSO's data collection procedures document does not clearly document the procedure steps for creating the final applicant flow data extract report, such as identifying relevant fields and tools, nor does it include roles and responsibilities or a managerial review step to ensure the applicant data extract reports are complete and accurate. In addition, the data collection procedure steps do not include controls for detecting duplicate records in the final applicant flow data extract reports. The current procedure step to remove duplicate records does not use a sufficiently unique identifier and can result in duplicate records and the potential removal of records that should not be deleted.

Without sufficient documentation of the procedure steps, the data collection process is not repeatable, and an unrepeatable process creates a key-person dependency. In addition, the manual nature of the process introduces the opportunity for errors. Automating internal controls and implementing a review process could prevent duplicate records and ensure the validity, completeness, and accuracy of the data. Because the Board uses the final applicant flow data extract report to provide information to internal and external stakeholders, including Congress, and because the Board should have a tool to identify diversity gaps and trends, the information must be accurate and complete.

Recommendations

We recommend that the director of the Division of Management

5. Document procedure steps with clear roles and responsibilities for the applicant data collection process so that it can be repeated.
6. Automate internal controls to remove duplicate records within the applicant data collection process.
7. Develop a review process for the final applicant flow data extract report to ensure the data are valid, complete, and accurate prior to reporting.

¹⁸ We identified that for each of the 5 years we reviewed, an average of 1.2 percent of the records were duplicates.

Management Response

In response to our draft report, the director of the Division of Management concurs with our recommendations. Regarding recommendation 5, the response states that PSO began implementing changes to the procedure steps. PSO anticipates completion by the first quarter of 2025.

Regarding recommendation 6, the response states that PSO will implement modules in its applicant tracking system beginning in 2025. In addition, PSO will automate the removal of duplicate records in the applicant tracking system beginning in the third quarter of 2025.

Regarding recommendation 7, the response states that in the second quarter of 2024, PSO implemented a new quality assurance and reconciliation process. In addition, PSO discussed the process with ODEI and implemented modifications to improve the quality of the data.

OIG Comment

The planned actions described by the director of the Division of Management appear to be responsive to our recommendations. We will follow up to ensure that the recommendations are fully addressed.



Appendix A: Scope and Methodology

The objective of this evaluation was to identify the extent to which the Board’s hiring policies, procedures, and practices affect workforce diversity. The Board tracks workforce demographics for race, ethnicity, and gender. We focused on race and ethnicity because the data we reviewed indicated a decline in racial and ethnic diversity as applicants moved through the hiring cycle. We did not observe a similar decline in gender diversity.

To achieve our objective, we reviewed Board policy, procedure, and training documents to gain an understanding of the control environment surrounding the Board’s hiring process. To confirm our understanding, we interviewed officials from the Division of Management and ODEI, as well as staff from 10 Board divisions.¹⁹ Based on our review, we identified Board hiring practices to test for each hiring action in our sample. We examined hiring actions from the January 1, 2020, through December 31, 2022, period.

To test Board hiring practices, we

- selected a nonstatistical quota sample of 98 hiring actions across six divisions that occurred from January 1, 2020, through December 31, 2022. Because this was a nonstatistical sample, we are unable to project our conclusions to the entire population. We selected the divisions to be sampled based on the racial and ethnic diversity of the applicant and hiring pool, the racial and ethnic diversity of the workforce, division size, and the percentage of mission-critical occupations, as well as whether the division expressed challenges with hiring a racially and ethnically diverse workforce. Based on the six divisions selected, we then selected a sample of 98 hiring actions to test Board hiring practices. We selected the sample of hiring actions based on pay grade categories and selected a higher percentage of senior-level managers and executive senior-level officers.
- conducted testing using documentary evidence and obtained testimonial evidence on the testing results. Testing focused on a review of (1) job posting language, (2) strategy session documentation, (3) plans for targeted outreach, and (4) attendance documentation for training to reduce bias in the hiring process.

To identify the potential effect of hiring practices on workforce diversity, we analyzed Board workforce and applicant demographic data from January 1, 2018, through December 31, 2022, for all Board divisions. Our analysis of the Board’s workforce was to (1) determine the race and ethnicity distribution for permanent Board employees based on pay grade categories, (2) determine the race and ethnicity distribution for Board officers, and (3) identify the extent to which workforce demographics changed over time as a whole and by pay grade categories. In addition, we compared the Board’s workforce demographics to the Census Bureau’s ACS data for 2018 through 2022. Our analysis of the Board’s applicant data was to determine (1) the race and ethnicity distribution during the hiring cycle and (2) the distribution of internal and external applicants during the hiring cycle.

¹⁹ We excluded the four economics divisions and the OIG.

To assess the reliability of the workforce data provided by PSO, we performed a data reliability assessment and tested for accuracy and completeness. The results of this test provided us with reasonable assurance, and we concluded that the data are reliable, accurate, and complete to support the objective.

To assess the reliability of the applicant data provided by PSO, we performed a data reliability assessment and determined that the final applicant data extract reports were not a reliable source of information for the purposes of our evaluation. We created new applicant data extract reports based on data pulled directly from the applicant database and performed data quality checks. We used the new applicant data extract reports for the purpose of this evaluation. The new applicant data extract reports were determined to be reliable, complete, and accurate for the purposes of the evaluation with limitations, such as when ethnicity and race were unknown or unspecified by applicants.

We also reviewed literature published by organizations in the public and private sector to identify leading practices for cultivating a diverse workforce. Our sources include the U.S. House of Representatives, Committee on Financial Services; the U.S. Merit Systems Protection Board; GAO; *Forbes*; Harvard Human Resources; LinkedIn; the National Institutes of Health; and the Society for Human Resource Management. Further, we interviewed staff from one peer federal agency and two Reserve Banks and reviewed documentation from these entities to identify additional leading practices for cultivating a diverse workforce through benchmarking.

We conducted this evaluation in accordance with the Council of the Inspectors General on Integrity and Efficiency's *Quality Standards for Inspection and Evaluation*. We conducted this work from January 2023 to April 2024.

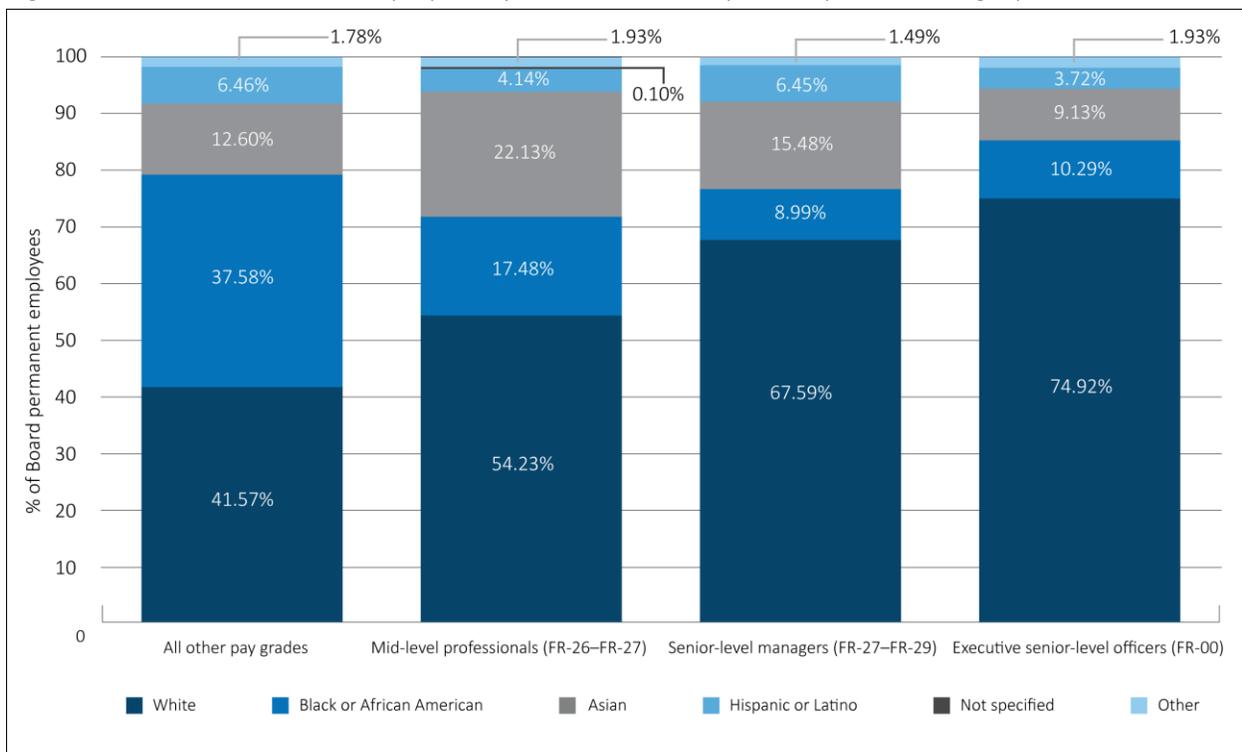


Appendix B: Additional Workforce and Applicant Demographic Data

The figures below provide additional data on permanent Board employees and Board applicants for 2018 through 2022.

Permanent employee demographics by pay grade categories. From 2018 through 2022, the Board’s workforce was the most diverse in the all other employee pay grade category with a 5-year average of 58.43 percent non-White workforce population. During that same period, the workforce was the least diverse in the senior-level manager pay grade category (FR-28 through FR-31) and the executive senior-level officer pay grade category (FR-00). Further, we analyzed the workforce data by pay grade groupings for the same period and determined that certain race and ethnicity groups declined as a percentage of the total workforce as pay grades increased. Specifically, the Black or African American group accounted for 37.58 percent of the workforce in the lowest pay grade category but declined to 10.29 percent of the workforce in the highest pay grade category (figure B-1).

Figure B-1. Permanent Board Employees by Race and Ethnicity and Pay Grade Category, 2018–2022

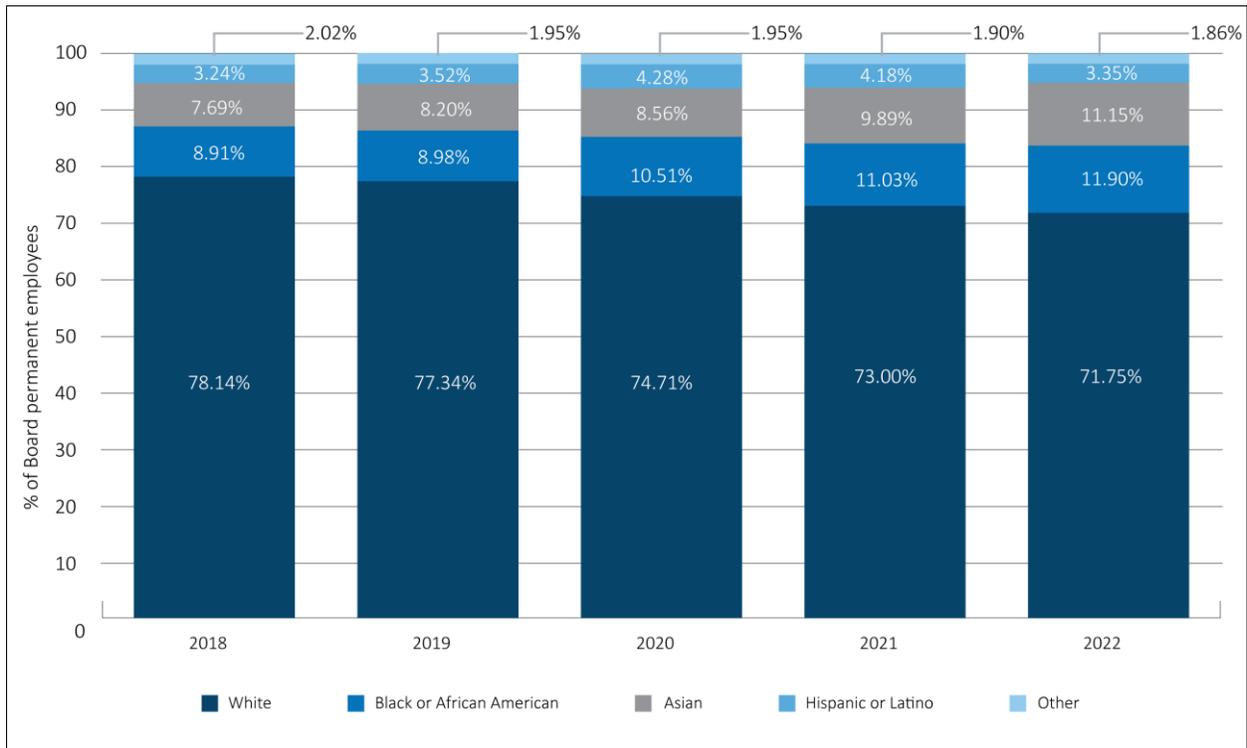


Source: OIG analysis based on Board workforce data.

Note: *Not specified* indicates that the applicant did not provide their race and ethnicity. For the purposes of this report, we grouped the following race and ethnicity categories as *Other* because of the small number of individuals typically represented in each: (1) Native Hawaiian and Pacific Islander, (2) American Indian and Alaska Native, and (3) two or more races, when applicable. *All other pay grades* includes FR-25 and below as well as wage employees.

Officer demographics. From 2018 through 2022, diversity in the Board’s executive senior-level officers increased. Specifically, the percentage of non-White officers increased from 21.86 percent to 28.25 percent. However, while the Hispanic or Latino group increased as a percentage of the executive senior-level officer group from 2018 through 2020, it declined as a percentage of the group in 2021 and 2022 (figure B-2).

Figure B-2. Board Officers by Race and Ethnicity, 2018–2022

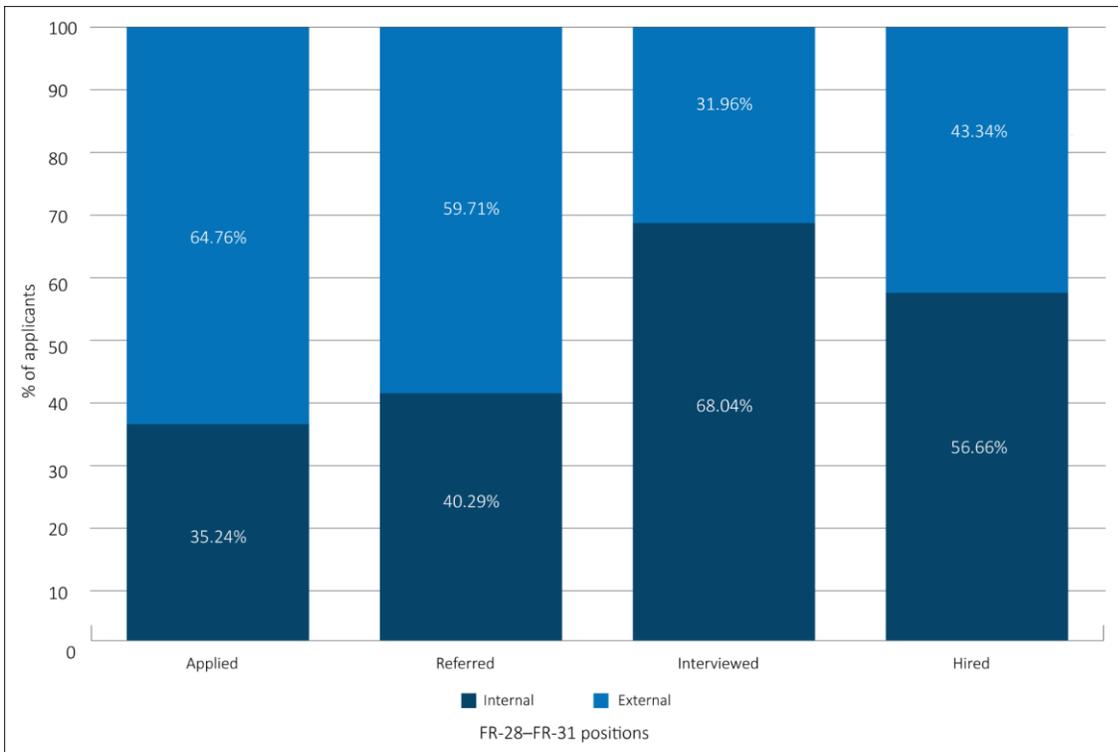
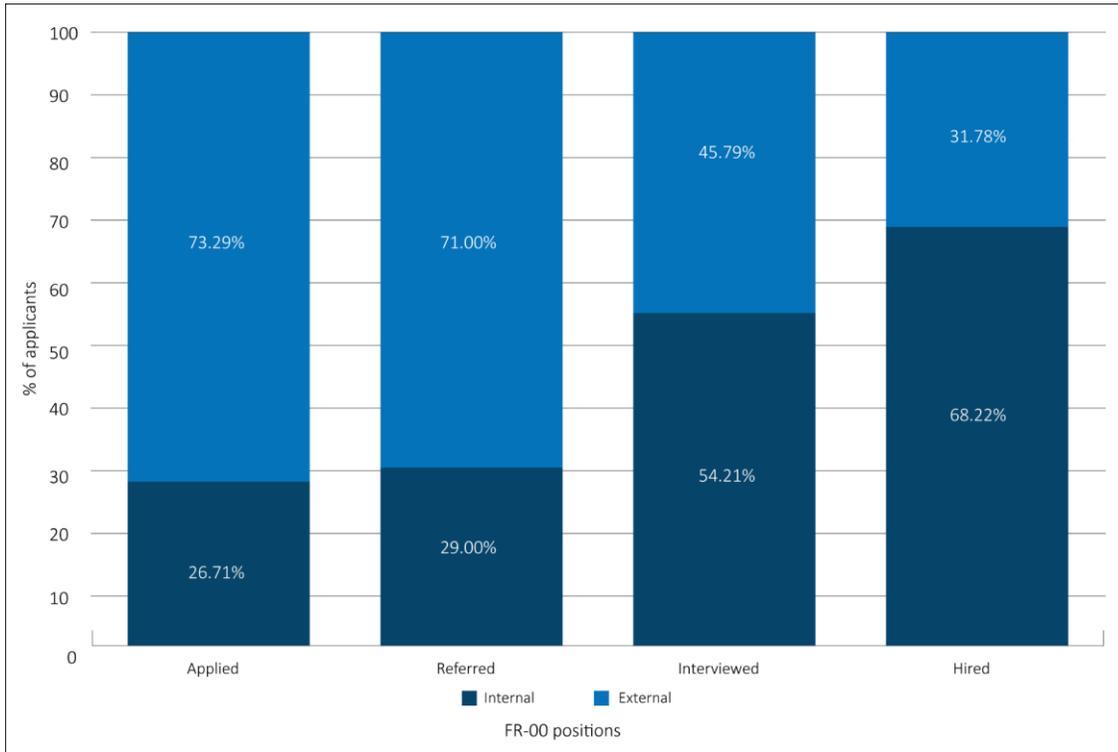


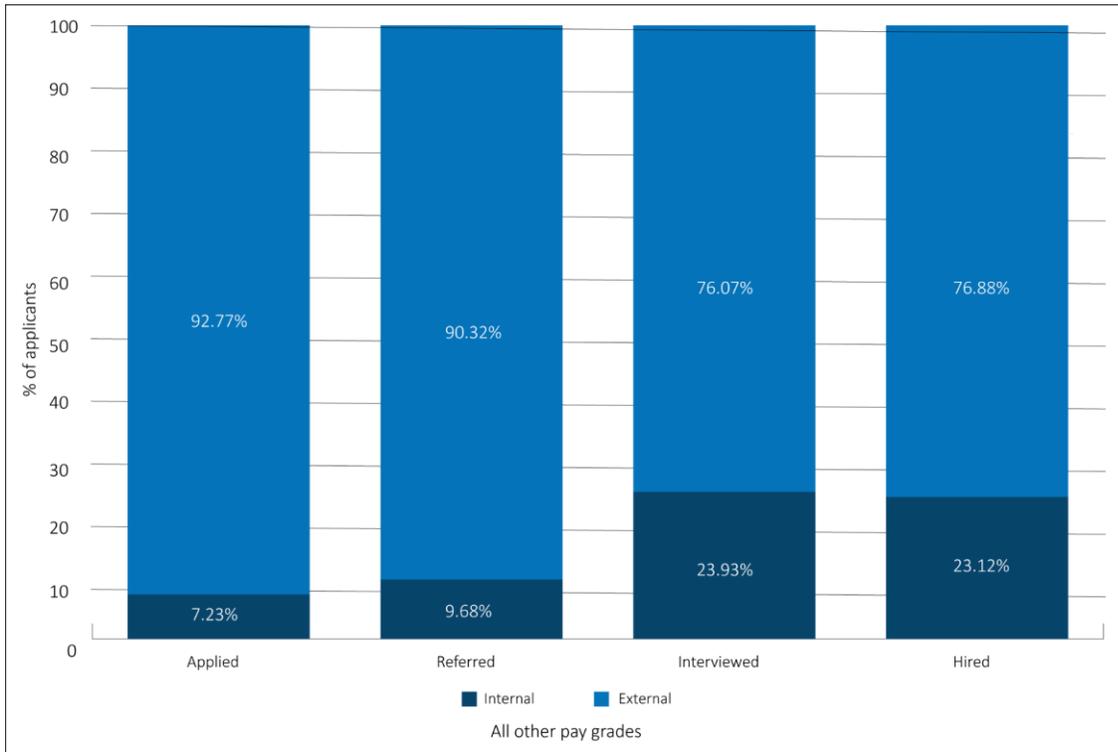
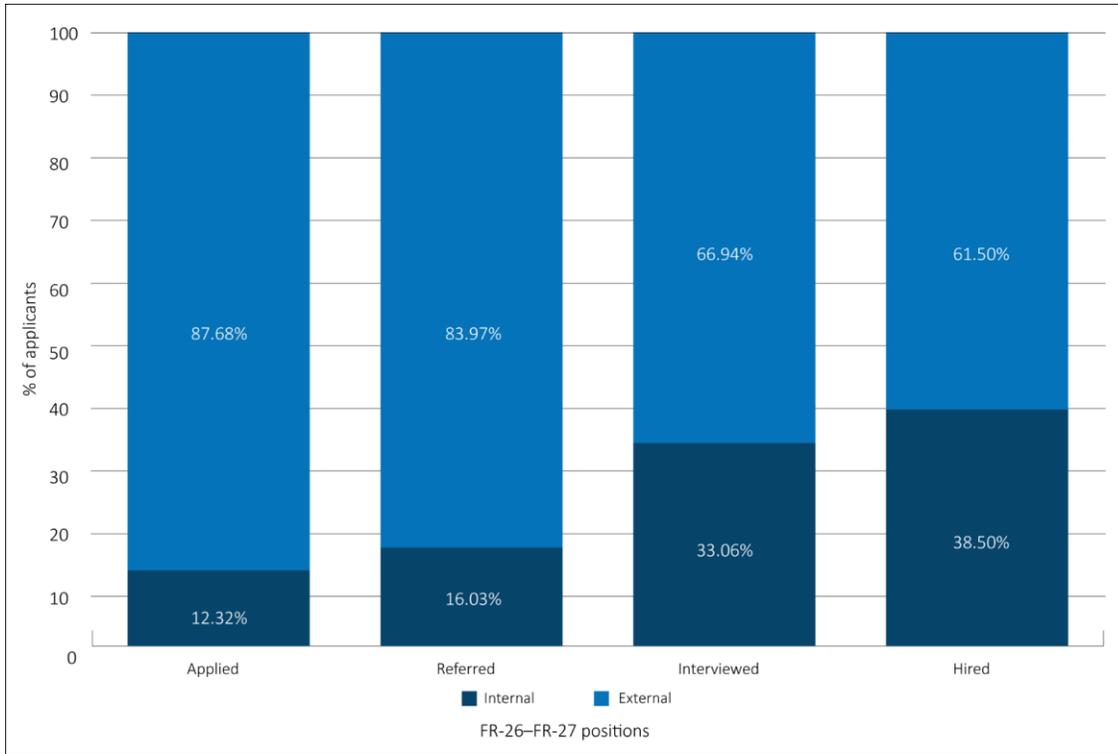
Source: OIG analysis based on Board workforce data.

Note: For the purposes of this report, we grouped the following race and ethnicity categories as *Other* because of the small number of individuals typically represented in each: (1) Native Hawaiian and Pacific Islander, (2) American Indian and Alaska Native, and (3) two or more races, when applicable.

Internal/external applicants by pay grade categories. From 2018 through 2022, the Board hired internal applicants at a higher rate for senior-level managers (56.66 percent) and executive senior-level officers (68.22 percent) when compared to mid-level professionals (38.50 percent) and all other pay grades (23.12 percent) (figure B-3).

Figure B-3. Board Applicants Through the Hiring Cycle by Pay Grade Categories and Internal/External Applicants, 2018–2022





Source: OIG analysis based on Board workforce data.

Note: *All other pay grades* includes FR-25 and below as well as wage employees.



Appendix C: Sources

Kitab Ali, “Unveiling Unconscious Bias in Hiring: Fostering Diversity and Inclusion Through Transformational Strategies,” LinkedIn, June 2023.

D. Davenport, A. Alvarez, S. Natesan, M. T. Caldwell, M. Gallegos, A. Landry, M. Parsons, and M. Gottlieb, “Faculty Recruitment, Retention, and Representation in Leadership: An Evidence-Based Guide to Best Practices for Diversity, Equity, and Inclusion from the Council of Residency Directors in Emergency Medicine,” National Institutes of Health, January 2022.

Susan Tsui Grundmann, Anne M. Wagner, and Mark A. Robbins, “The Impact of Recruitment Strategy on Fair and Open Competition for Federal Jobs,” U.S. Merit Systems Protection Board, January 2015.

Aline Holzwarth, “How to Actually Hire for Diversity,” *Forbes*, February 2021.

Rebecca Knight, “7 Practical Ways to Reduce Bias in Your Hiring Process,” Society for Human Resource Management, April 2018.

Majority Staff of the House Committee on Financial Services, “Diversity and Inclusion: Holding America’s Large Banks Accountable,” U.S. House of Representatives, 116th Congress, second session, February 2020.

Talent Acquisition and Diversity team, members of the recruitment community, and Office for Equity, Diversity, Inclusion, and Belonging, *Inclusive Hiring Resources Guide*, Harvard Human Resources, revised March 2022.

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

Appendix D: Management Response



BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

DIVISION OF MANAGEMENT

August 15, 2024

Michael VanHuysen
Associate Inspector General for Audits and Evaluations
Board of Governors of the Federal Reserve System
Washington, DC 20551

Dear Michael:

Thank you for the opportunity to comment on the draft report, *The Board Can Strengthen Its Hiring Practices to Help Mitigate Bias and Reinforce Its Commitment to Ensuring a Diverse Workforce*. We appreciate the Office of Inspector General's (OIG) effort in developing this report and the recommendations after reviewing our hiring policies, procedures, and practices that affect our workforce diversity. We take your recommendations seriously, as they are helpful in the Board's continued efforts to attract and hire a diverse workforce that will help us successfully meet our mission.

We have reviewed the report and generally concur with the four findings and seven recommendations. Work that begun during your review, such as the creation of the People, Strategy and Operations' Hiring Guide, serves as important information to help our hiring managers navigate the hiring process while ensuring they mitigate bias. Our responses for each recommendation are included below.

I want to express our appreciation for the professionalism demonstrated by all OIG personnel throughout this audit and your staff's efforts to understand the hiring process. We look forward to our continued partnership with your office.

Regards,

A handwritten signature in cursive script that reads "Winona".

Winona H. Varnon

www.federalreserve.gov

cc:

Patrick J. McClanahan
Tameika Pope
Sheila Clark
Cathi Jack
Bruce Brumbaugh
Donna Butler
Linda Comilang

**Response to recommendations presented in the Draft OIG Report,
The Board Can Strengthen Its Hiring Practices to Help Mitigate Bias and Reinforce Its Commitment
to Ensuring a Diverse Workforce ”**

Finding 1: The Board Should Address Challenges to Implementing Boardwide Hiring Practices

Recommendation 1: Develop and execute a plan with time frames to implement hiring practices Boardwide, such as anonymizing résumés, mandating the existing “Effectively Hiring Top Talent Without Bias” training for hiring managers, or adopting other, similar measures to reduce the risk of bias in the hiring process. If resource, budgetary, or cultural challenges persist, develop and execute a plan to address those challenges and implement hiring practices to reduce the risk of bias in the hiring process.

Management Response: We concur with the finding and recommendation, and believe the actions identified throughout our response are supportive to reducing possible risk in the hiring process and the challenges identified in the review. To address the finding above, we will implement the following plan of actions to strengthen Boardwide hiring practices:

- Beginning in calendar year 2025, PSO will increase the number of yearly offerings for “Effectively Hiring Top Talent Without Bias” from six to eight. This will ensure greater access to new and current managers. PSO’s Talent Acquisition (TA) team will release the class schedule in Q4, 2024 for classes to be held in 2025.
- PSO will record the session to offer an on-demand version to reach a larger number of hiring managers who may be unable to attend the sessions. This will be made available in Q1, 2025.
- The director of the Division of Management and the Chief Human Capital Officer (CHCO) will work with the Chief Operating Officer to explore options to make “Effectively Hiring Top Talent Without Bias” a mandatory training requirement for all Board people leaders, with the goal for the requirement to take effect in Q1, 2026.
- As PSO is implementing the Workday Talent Acquisition module in 2025, it is not feasible to research new applicant tracking systems outside of Workday. PSO will work with Workday to determine the functionality and ability to move Workday’s resume anonymizing tool into the FedRamp boundary for the Board’s use (PSO will start inquiry in Q3 2024). *If this solution is feasible, and additional funding is required, we will request funding through the budget process in Q2, 2025, after which an implementation plan can be developed.*
- To further garner senior leadership support to implement these actions, the director of the Division of Management and the CHCO will brief the Executive Committee on PSO’s initiatives to strengthen the Board’s hiring practices (Q1, 2025).

Finding 2: PSO and ODEI Should Issue Comprehensive Boardwide Guidance That Supports Hiring a Diverse Workforce

Recommendation 2: Coordinate to develop comprehensive Boardwide guidance that has baseline expectations and that covers the entire hiring process, including the hiring panel selection process, candidate selection process, and strategies for hiring without bias.

Management Response: We generally concur with this finding and recommendation. During the audit, PSO began work on guidance that supports the recommendation. In March 2024, PSO published a newly created Hiring Guide, designed to streamline and enhance the interview process to help hiring managers make informed and effective hiring decisions. The guide formalizes the hiring process that is discussed

with hiring managers and consists of step-by-step instructions beginning with the importance, and details, of the Strategy Session, diversity sourcing and networking, selecting panel interview members to ensure diversity (including diversity of thought and stakeholder perspectives), and creating standardized question sets using a newly created interview guide and selection rubric. The Hiring Guide was sent to all division Business Management Analysts (BMA's) and BMA leadership and is provided to every hiring manager at the onset of a recruiting engagement.

To further strengthen our existing guidance, PSO will create a new policy on hiring at the Board. This policy will consolidate information from existing documents, such as the *Vacant Posting Policy* and the PSO Hiring Guide. PSO will coordinate with ODEI during policy review. PSO expects to complete the policy by Q4, 2025.

Finding 3: The Board Should Implement a Policy on Strategy Sessions to Ensure That PSO Discusses Leading Diversity Practices for Hiring with Hiring Managers

Recommendation 3: Develop and implement a policy requiring that strategy sessions be conducted and documented for nonofficer job postings unless a hiring manager participated in a recent session for a similar posting. For similar postings, determine the appropriate amount of time after which another strategy session should be held.

Management Response: We concur with the finding and recommendation. Completion of the policy in recommendation #2 above will include updated guidance on strategy sessions. Additionally, PSO will schedule strategy sessions with all hiring managers who have not participated in a session for a similar posting within six months (vs the current one-year interval now used). PSO will begin this in Q4, 2024.

Recommendation 4: Update the strategy session template to ensure that leading practices for hiring a diverse workforce are discussed during strategy sessions, including using diverse hiring panels, balancing internal and external job postings, using neutral and unbiased language in job postings, and using a standard interview process.

Management Response: We generally concur with the finding and recommendation. While the strategy session template included in the PSO Hiring Guide defines the importance of, and recommendation for, using diverse hiring panels, PSO will:

- Update both the Strategy Session template and PSO Hiring Guide in Q4, 2024 to include leading practices identified in this report.
- Post updated documents to the Talent Acquisition website on Inside the Board for ease of use by the Board's hiring managers (Q4, 2024).

Finding 4: PSO Should Implement Controls Over the Quarterly Applicant Data Collection Process

Recommendation 5: Document procedure steps with clear roles and responsibilities for the applicant data collection process so that it can be repeated, including clarifying roles and responsibilities.

Management Response: We concur with the finding. Work is currently underway on the recommendation. PSO recently implemented changes to the procedures to complete the Q2, 2024 data extracts. PSO is currently assembling the documentation and the procedures will be finalized in Q1, 2025.

Recommendation 6: Automate internal controls to remove duplicate records within the applicant data collection process.

Management Response: We concur with the finding and recommendation. We anticipate implementing the Recruiting and Onboarding modules in Workday in 2025. Workday delivers tools that should allow the removal of duplicates resulting from multiple interview dates through its Applicant Flow Reporting, which is in the design/development stage. This feature is a requirement for this reporting. We look forward to automating the removal of duplicate records in the Workday platform reporting in Q3, 2025.

Recommendation 7: Develop a review process for the final applicant flow data extract report to ensure the data are valid, complete, and accurate prior to reporting.

Management Response: We concur with the finding and the recommendation is complete. In Q2, 2024, PSO implemented a new QA and Reconciliation process and documentation. PSO discussed the process with ODEI and implemented modifications to improve the quality of the data.



Abbreviations

ACS	American Community Survey
CHCO	chief human capital officer
COO	chief operating officer
GAO	U.S. Government Accountability Office
ODEI	Office of Diversity, Equity and Inclusion
PSO	People, Strategy and Operations group

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