



*Internal Revenue Service
Diversity Demographics Compare
Favorably With Other Federal Agencies'
Senior Executive Service Ranks*

November 18, 2011

Reference Number: 2012-10-006

This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.

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HIGHLIGHTS

INTERNAL REVENUE SERVICE DIVERSITY DEMOGRAPHICS COMPARE FAVORABLY WITH OTHER FEDERAL AGENCIES' SENIOR EXECUTIVE SERVICE RANKS

Highlights

**Final Report issued on
November 18, 2011**

Highlights of Reference Number: 2012-10-006 to the Internal Revenue Service Deputy Commissioner for Operations Support and Deputy Commissioner for Services and Enforcement.

IMPACT ON TAXPAYERS

Diversity and an inclusive work environment in the Federal Government's leadership ranks can be a key organizational component for executing agencies' missions and can yield greater engagement, productivity, and organizational performance. The IRS's Senior Executive Service (SES) diversity demographic statistics compare favorably with other Federal agencies' SES ranks. When agencies recruit and retain a representative leadership workforce, one that looks like the public that it serves and the workforce it leads, they are enabled to better serve the public.

WHY TIGTA DID THE AUDIT

This audit was initiated to determine the level of diversity in IRS SES appointments and whether the IRS has an effective strategy that complies with applicable law and regulations to achieve diversity within executive positions. This review was included in our Fiscal Year 2009 Annual Audit Plan and addresses the major management challenge of Human Capital.

WHAT TIGTA FOUND

The IRS's diversity demographic statistics compare favorably with other Federal agencies' SES ranks. For example, in Fiscal Year 2009,

the IRS SES level had a higher percentage of diversity in eight of 12 Office of Personnel Management diversity categories. Also, three of the other four diversity categories were underrepresented by less than 1 percent.

The success the IRS has achieved in its SES diversity demographics is the result of key diversity practices that have been integrated into business processes agency-wide, as well as top level executive commitment and support, which have established a culture that respects and values diversity. However, TIGTA noted that these key practices were not formally documented in the IRS's Equity, Diversity, and Inclusion (EDI) policies and procedures. TIGTA believes memorializing the IRS's key diversity practices in formal internal procedures will help ensure that these practices continue to receive the level of commitment that currently exists, in spite of retirements, attrition, or other changes in the IRS's top leadership ranks. In addition, the IRS could benefit by expanding its outreach efforts to have a more specific focus at the SES level by participating with professional executive organizations.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the Deputy Commissioner for Operations Support and the Deputy Commissioner for Services and Enforcement ensure key SES diversity practices are memorialized within EDI internal guidance (policies and procedures). In addition, they should consider partnering with Federal professional executive organizations and communicate the existence of these organizations to employees.

IRS management agreed with our recommendations. The IRS Human Capital Office and the Office of EDI plan to review existing written policies and revise them, if necessary, to ensure these documents accurately capture current practices. In addition, the IRS plans to partner with external executive and professional organizations and communicate this information to all employees.



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

November 18, 2011

MEMORANDUM FOR DEPUTY COMMISSIONER FOR OPERATIONS SUPPORT
DEPUTY COMMISSIONER FOR SERVICES AND
ENFORCEMENT

FROM: *Michael R. Phillips*
Michael R. Phillips
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Internal Revenue Service Diversity Demographics
Compare Favorably With Other Federal Agencies’ Senior Executive
Service Ranks (Audit # 200910003)

This report presents the results of our review to determine the level of diversity in the Internal Revenue Service (IRS) Senior Executive Service appointments and whether the IRS has an effective strategy that complies with applicable laws and regulations to achieve diversity within executive positions. This audit was conducted as a part of our Fiscal Year 2009 Annual Audit Plan and addresses the major management challenge of Human Capital.

Management’s complete response to the draft report is included as Appendix IV.

Copies of this report are also being sent to the Internal Revenue Service managers affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions or Nancy A. Nakamura, Assistant Inspector General for Audit (Management Services and Exempt Organizations), at (202) 622-8500.



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Abbreviations

CDP	Candidate Development Program
EDI	Equity, Diversity and Inclusion
EEO	Equal Employment Opportunity
ERB	Executive Resources Board
FY	Fiscal Year
HCO	Human Capital Office
IRS	Internal Revenue Service
MD-715	Management Directive 715
OPM	Office of Personnel Management
SES	Senior Executive Service



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Background

The Internal Revenue Service (IRS), along with the rest of the Federal Government, is facing new and more complex challenges in the 21st Century because of long-term fiscal constraints, changing demographics, preparation for an increased number of retirements, and other factors. Senior Executive Service (SES)¹ members are critical to providing the strategic leadership needed to effectively meet these challenges. In Calendar Year 2010, the IRS had more than 250 SES appointments, of which approximately 62 percent are eligible to retire within the next three fiscal years.² Diversity and an inclusive work environment in the Federal Government's leadership ranks can be a key organizational component for executing the agencies' missions and can yield greater engagement, productivity, and organizational performance.

Historically, Federal diversity initiatives have focused on equal employment opportunity (EEO)³ and affirmative employment.⁴ EEO, by law and statute, exists both in the public and private sectors to ensure that all persons are afforded equal opportunity in personnel procedures and decisions affecting them in the workplace. However, diversity, while not mandated by law and not punishable when neglected or overlooked, is both desirable and critical if an employer wishes to benefit from the many skills, life experiences, and unique natures that each person brings to the workplace. Diversity now means different things to different Federal agencies, organizations, and people and can encompass the mindset and climate of an organization. The IRS defines diversity as:

The collective mixture of differences and similarities employees and customers possess. Generally, the differences we recognize first about each other are race, gender, and age. Diversity goes beyond those obvious differences to recognize other differences among us such as mental/physical abilities, religious beliefs, sexual orientation, thinking style, geographical location, education, functional area, and personality type, as well as similarities.

¹ The SES is comprised of the men and women charged with leading the continuing transformation of the Federal Government. This dedicated corps of executives shares a commitment to public service and a set of democratic values grounded in the fundamental ideals of the Constitution. As the leaders of our Federal civilian workforce, Senior Executives strive each day to create a more citizen-centered, results-oriented Federal Government.

² A 12-consecutive-month period ending on the last day of any month, except December. The Federal Government's fiscal year begins on October 1 and ends on September 30.

³ EEO embodies the principle of fair treatment in Federal employment and personnel matters without regard to race, color, sex, religion, national origin, age, or physical or mental disability.

⁴ Affirmative employment was first established by the Federal Government in 1965. This legal mandate consists of special actions in recruitment, hiring, and other areas designed to eliminate the effects of past discrimination.



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The business case⁵ for leveraging diversity has two significant elements. First, the labor and talent market has become increasingly competitive. The IRS must use every available source of potential applicants to ensure it has the high-quality workforce that it needs to deliver its mission to the taxpayer. If the IRS fails to take steps to recruit among the full range of the diverse labor market, it is missing a strategic opportunity. Second, the changing demographics of America mean that taxpayers served by the IRS are also changing. When agencies recruit and retain a representative workforce, one that looks like the public that it serves, and when individual differences are respected, appreciated, and valued, diversity becomes an organizational strength that contributes to achieving mission performance and results. Diversity also enables the IRS to better serve the taxpayer by reflecting the customers and communities it serves.

Federal laws govern the employment practices of qualified entities in the consideration of diversity. Title VII of the Civil Rights Act of 1964⁶ generally makes it unlawful to discriminate in matters of employment based on race, color, national origin, sex, and religion. Additionally, preferential treatment is not to be granted due to existing underrepresentation within an organization. The IRS must abide by the requirements of Title VII in the development and operation of its training and employment practices. In addition, the IRS is required by the EEO Commission Management Directive 715 (MD-715)⁷ to report annually on the status of activities undertaken pursuant to its EEO program. The annual IRS MD-715 report must also include a plan that sets forth steps the IRS will take in the future to correct deficiencies or further improve efforts undertaken pursuant to the directive.

The Executive Resources Board (ERB) is responsible for all executive resources and establishes all IRS policies associated with career appointments related to SES and Senior-Level⁸ positions. ERB members are appointed by the IRS Commissioner and are accountable to the Commissioner through the ERB Chairman. The ERB meets monthly and discusses issues related to identifying interview panels and selecting Candidate Development Program (CDP)⁹ applicants, filling SES vacancies, and monitoring the mobility of SES appointments. The ERB collectively makes decisions on the outcome of these events.

⁵ A business case captures the reasoning for initiating a project or task. It is often presented in a well-structured, written document, but may also sometimes come in the form of a short verbal argument or presentation.

⁶ Pub. L. No. 88-352, Title VII.

⁷ This Directive provides policy guidance and standards for establishing and maintaining effective affirmative programs of EEO under Section 717 of Title VII (PART A) and effective affirmative action programs under Section 501 of the Rehabilitation Act (PART B). The Directive also sets forth general reporting requirements (PART C).

⁸ Senior-Level positions are classified above GS-15. The work of the position does not meet SES criteria nor does it involve the fundamental research and development responsibilities that are characteristic of Scientific and Professional positions.

⁹ The SES CDP is the principal means through which the IRS seeks to identify and hire career executives. The CDP provides selected applicants the opportunity to work with a diverse, knowledgeable, and highly skilled workforce. The Program consists of formal training and developmental assignments. Its purpose is to identify outstanding persons with demonstrated leadership competencies and to prepare them for SES positions.



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To gain an understanding of the overall IRS organizational posture toward diversity (staff, feeder group,¹⁰ and SES levels), we met with the Deputy Commissioners for Operations Support and Services and Enforcement and interviewed some business unit Commissioners (Small Business/Self-Employed Division, Wage and Investment Division, and Large Business and International Division), the Chief Technology Officer, the IRS Human Capital Officer, the IRS ERB Chairman, and the Executive Director of the Office of Equity, Diversity, and Inclusion (EDI).

To determine how the IRS is currently positioned in terms of a diverse SES cadre, we evaluated the IRS SES workforce against the 12 diversity demographic categories that the Office of Personnel Management (OPM) tracks for the Federal Government workforce. We were unable to compare any other diversity aspects outside of race, gender, and disability because the statistical data OPM tracks and provided to us did not include any other diversity aspects.

This review was performed at various program offices in Washington, D.C., within the National Headquarters of the IRS Human Capital Office (HCO); the Office of Equity, Diversity, and Inclusion; the Modernization and Information Technology Services organization; and the Large Business and International, Small Business/Self-Employed, and Wage and Investment Divisions. In addition, this review was performed in the Wage and Investment Division program office located in Atlanta, Georgia. We conducted this performance audit during the period November 2009 through August 2011 and performed it 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 findings and conclusions based on our audit objective. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

¹⁰ The feeder group is comprised of GS-13, GS-14, and GS-15 grade levels and provides advancement opportunities not only to the next grade level but also potentially to career SES appointments.



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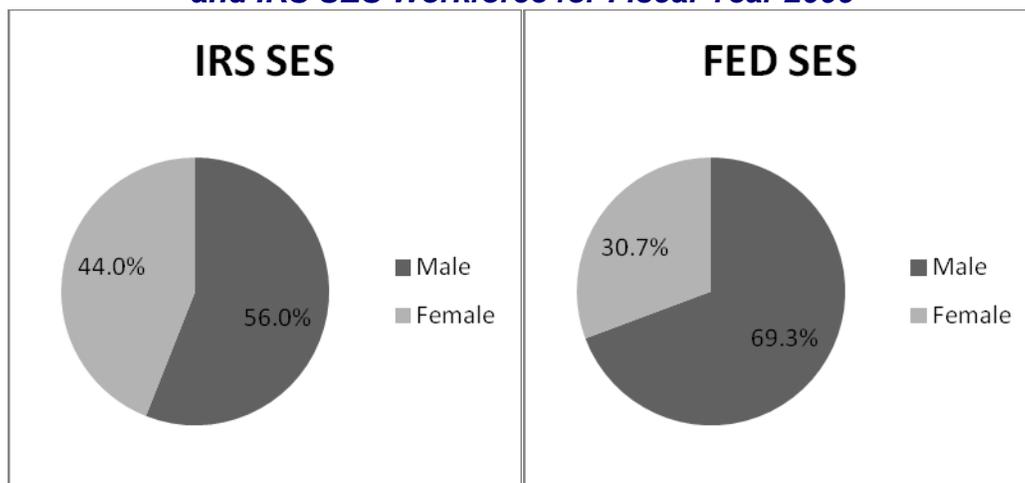
Results of Review

The IRS's diversity demographic statistics compare favorably with other Federal agencies' SES ranks. For example, in Fiscal Year (FY) 2009, the IRS SES level had a higher percentage of diversity in eight of 12 Office of Personnel Management diversity categories. Also, three of the other four diversity categories were underrepresented by less than 1 percent. The success the IRS has achieved in its SES diversity demographics is the result of key diversity practices that have been integrated into business processes agency-wide, as well as top level executive commitment and support, which have established a culture that respects and values diversity. However, we noted that the IRS Office of EDI does not have formal policies and procedures that document these practices. Finally, the IRS could benefit by expanding its outreach efforts to have a more specific focus at the SES level by participating with professional executive organizations.

The Internal Revenue Service's Senior Executive Service Demographics Compare Favorably With Other Federal Agencies

We reviewed OPM data on diversity categories to compare several demographic factors (workforce categories) to evaluate diversity at the IRS SES level. Based on the data in Figure 1 below, the IRS is exceeding the Federal Government as a whole in placing more females in executive positions at the SES level.

Figure 1: Gender Comparison of Federal SES and IRS SES Workforce for Fiscal Year 2009



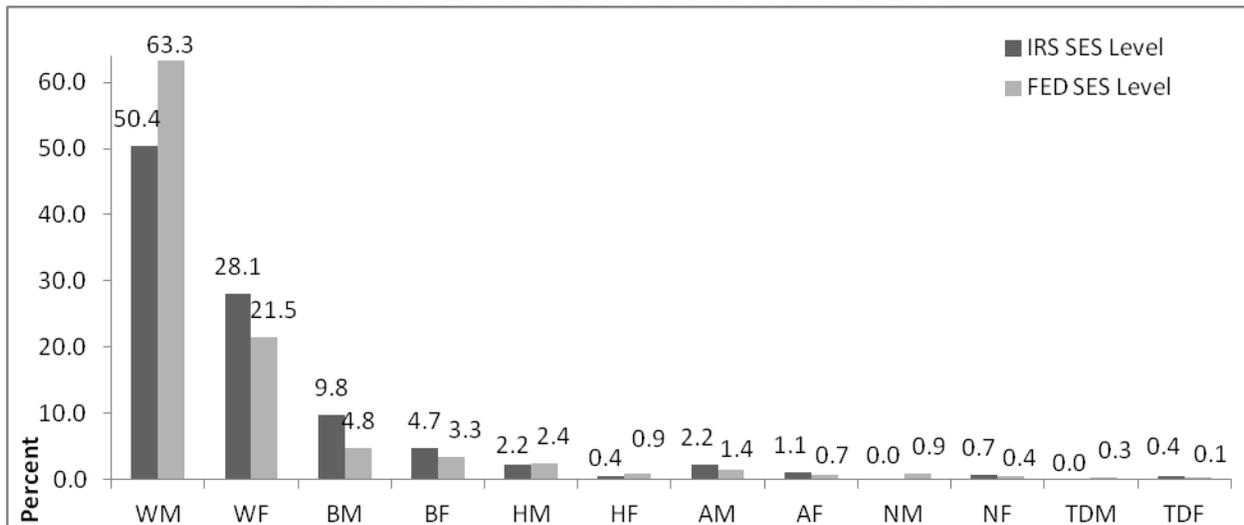
Source: Federal data – Office of Personnel Management – FY 2009 Federal Equal Opportunity Recruitment Program. IRS data – IRS Employee Master Database.



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Figure 2 and Figure 3 below show the demographic comparisons of the Federal SES to the IRS SES levels for FY 2004 and FY 2009, respectively. Looking at Figure 2 and Figure 3 together, we identified changes that have occurred in the demographic groups over the six-year period. For example, the IRS SES level has increased from seven of 12 OPM diversity categories having a higher percentage of diversity than the Federal SES in FY 2004 to eight of 12 OPM diversity categories in FY 2009. In addition, three of the other four diversity categories in FY 2009 were underrepresented by less than 1 percent in comparison with the other Federal agencies' SES ranks.

Figure 2: Demographic Comparison of Federal SES and IRS SES Workforce for Fiscal Year 2004



FY 2004 Government-Wide	Total	WM %	WF %	BM %	BF %	HM %	HF %	AM %	AF %	NM %	NF %	TDM %	TDF %
IRS SES Level	274	50.4	28.1	9.8	4.7	2.2	0.4	2.2	1.1	0.0	0.7	0.0	0.4
FED SES Level	7,093	63.3	21.5	4.8	3.3	2.4	0.9	1.4	0.7	0.9	0.4	0.3	0.1
IRS Above FED SES			X	X	X			X	X		X		X
IRS Below FED SES		X				X	X			X		X	

Source: Federal data – Office of Personnel Management – FY 2004 Federal Equal Opportunity Recruitment Program. IRS data – IRS Employee Master Database.

Legend:

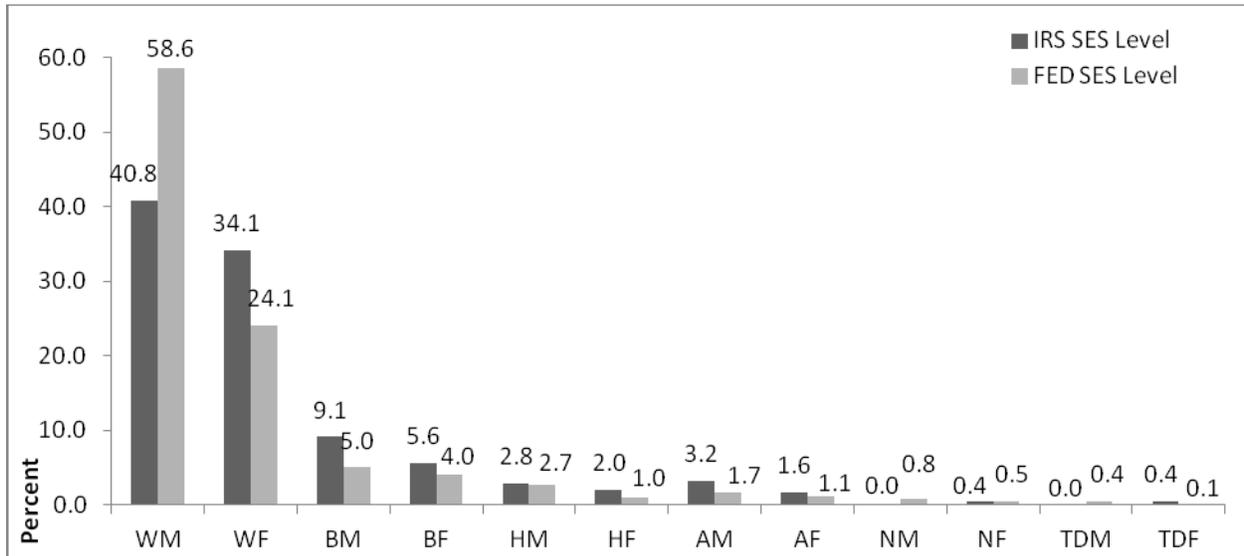
WM – White Male, WF – White Female
 BM – Black Male, BF – Black Female
 HM – Hispanic Male, HF – Hispanic Female

AM – Asian/Pacific Male, AF – Asian/Pacific Female
 NM – Native American Male, NF – Native American Female
 TDM – Targeted Disabled Male, TDF – Targeted Disabled Female



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**Figure 3: Demographic Comparison of Federal SES
and IRS SES Workforce for Fiscal Year 2009**



FY 2009 Government-Wide	Total	WM %	WF %	BM %	BF %	HM %	HF %	AM %	AF %	NM %	NF %	TDM %	TDF %
IRS SES Level	252	40.8	34.1	9.1	5.6	2.8	2.0	3.2	1.6	0.0	0.4	0.0	0.4
FED SES Level	7,726	58.6	24.1	5.0	4.0	2.7	1.0	1.7	1.1	0.8	0.5	0.4	0.1
IRS above FED SES			X	X	X	X	X	X	X				X
IRS below FED SES		X								X	X	X	

Source: Federal data – Office of Personnel Management – FY 2009 Federal Equal Opportunity Recruitment Program. IRS data – IRS Employee Master Database.

Comparing Figure 2 with Figure 3, the demographic group percentages for Native American Male and Targeted Disabled Male have not improved. In addition, over the six-year period, the number of IRS SES-level majority demographic White Male has decreased from 50.4 percent in FY 2004 to 40.8 percent in FY 2009. This represents a decrease of approximately 10 percent in White Males at the IRS SES level. In contrast, the number of majority demographic White Males at the Federal SES level decreased from 63.3 percent in FY 2004 to 58.6 percent in FY 2009. This represents a decrease of 4.7 percent in White Males at the Federal SES level. As a result of the significant decrease in the percentage of White Males at the IRS SES level, there has been an overall increase in the IRS’s other demographic categories at the SES level compared with the Federal Government as a whole.



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Senior Executive Service Diversity Demographic Achievements Are the Result of the Integration of Diversity Practices Into Business Processes Agency-Wide and Top Level Support

The success the IRS has achieved in its SES diversity demographics are the result of diversity practices that have been integrated into business processes agency-wide and top level executive commitment and support. When viewed collectively, the IRS has undertaken a broad approach to diversity designed to achieve a workforce that represents the taxpayers that it serves and to recognize the importance of diversity in the IRS's business goals and objectives.

The IRS has instituted several key practices that have contributed to the IRS's progress in and achievement of higher percentages of SES diversity in many of the OPM demographic categories and in establishing a culture that respects and values diversity within the workforce. These practices include:

- ***Cultivating a diverse workforce.*** The IRS believes that in order to accomplish its mission, the IRS must cultivate the workforce of tomorrow, in part by providing a working environment characterized by equity, diversity, and inclusion. The IRS sees the diversity of its workforce as a business imperative that is woven into the culture and structure of the organization. In addition, the IRS Strategic Plan 2009–2013 includes diversity as an essential element in building a robust workforce.
- ***Diversity strategic planning.*** The IRS believes that a comprehensive diversity strategy must continually examine and work towards greater diversity at all organizational levels to impact diversity at the SES level. The IRS believes that if it strives for diversity at the staff entry level, it should carry through as the staff progress and reach the feeder group level and should result in a diverse group of applicants within the IRS from which to select for executive initiatives. The IRS's efforts to achieve a diverse feeder pool¹¹ for its various leadership programs¹² and SES level positions focus on outreach and recruitment to diversify the applicant pool, maintaining a selection process that ensures equal employment opportunity by not making demographic-based decisions, and using an objective methodology for rating, ranking, and interviewing applicants for leadership programs and developmental assignments.

¹¹ The IRS has an intentional outreach and recruitment plan that is linked to the workforce data to ensure it is targeting areas of underrepresentation. This recruitment plan is formulated annually and adjusted to the shifting workforce demographics. The Office of EDI collaborates with the IRS Recruitment Office to develop a workforce data-driven Annual Diversity Recruitment Plan and a corresponding Annual Media Plan.

¹² Examples of IRS various leadership programs would include the Frontline Leadership Readiness Program, Department Manager Readiness Program, Senior Manager Readiness Program, Executive Readiness Program, and Candidate Development Program.



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- **Top level commitment, involvement, and accountability.** The IRS's diversity strategy has the support of the IRS Commissioner and business unit executives. For example, the Commissioner's annual EEO Policy statement asserts:

I am convinced that the unique attributes of each employee offer incalculable benefits to our organization. Therefore, I am committed to not only creating a working environment that is free from discrimination and other barriers to full participation, but also welcomes people from all backgrounds, and reflects the taxpaying public we serve. Join me in these efforts to further our objective to make the IRS the best place to work in government.

- **Performance measures and goals.** Some of the IRS business units have reported on actions taken and progress made on diversity initiatives.¹³ The business units are required to submit quarterly MD-715 template updates on their diversity initiatives in the MD-715 action plan, which provides executive level accountability for diversity actions. This report assists with the preparation of the IRS MD-715 report, and it also encourages a focus on the business unit diversity initiatives throughout the year.
- **Top level Office of EDI.** The Office of EDI Director reports directly to the IRS Commissioner, briefs the IRS Commissioner quarterly on diversity issues, and is also a voting member of numerous IRS executive boards, such as the ERB, Human Capital Advisory Council, Human Capital Board, Section 1203 Review Board, and Performance Review Board.

The Office of EDI oversees the collection and tracking of the IRS's progress toward diversity at all grade levels and this information is reported in the annual MD-715 report. Each business unit within IRS has an EDI business unit director that reports directly to their respective chief or commissioner. EDI business unit directors primarily work on EEO and diversity related activities within the business unit and prepare the annual MD-715 report submission for their business unit for inclusion in the IRS MD-715 report.

In addition, the Office of EDI has established monthly "contributor meetings"¹⁴ among the various EDI and HCO units that perform related work to increase accountability and to ensure a cohesive, consistent corporate approach to the IRS's efforts and activities pertaining to the MD-715. The monthly meetings are used to provide guidance and coordination, share best practices, and ensure consistent reporting.

¹³ The Small Business/Self-Employed and Wage and Investment Divisions have reported in their Business Performance Reports actions taken and progress made on their diversity initiatives.

¹⁴ Contributor's Meetings provide guidance and coordination, share best practices, and ensure consistent reporting in the MD-715 among representatives from the various HCO and EDI units who participate in these monthly meetings.



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Historical view of diversity initiatives

Prior to FY 2009, the IRS placed more emphasis on EEO compliance (assuring that discrimination based on race, age, gender, and disability does not occur) and properly reporting on EEO Commission initiatives through MD-715 than it placed on achieving a diverse workforce. However, in August 2009, the IRS began its initiative to address the absence of a diversity strategic plan and committed resources to its diversity efforts with the selection of a permanent Executive Director for the Office of EDI and the filling of staff vacancies within that office. The Office of EDI establishes the strategic diversity direction for the IRS, including the SES level, and the Director, EDI, is responsible for ensuring IRS-wide consistency in implementing the IRS diversity initiatives. The Office of EDI also develops diversity policy and approaches to attract, develop, and retain a talented diverse workforce and ensure diversity is infused within leadership succession, recruitment and retention initiatives, and leadership development programs.

In early FY 2010, the Office of EDI drafted the IRS's first EDI Strategic Plan for FY 2010–2015 with the intention to parallel the OPM's Federal Government-wide Diversity Strategic Plan. However, toward the end of FY 2010, OPM had not yet issued its plan, so the IRS issued the EDI Strategic Plan on September 16, 2010, which addresses diversity across the IRS. The EDI Strategic Plan was developed corporately by members of the EDI community, business unit executives, the IRS HCO, and General Legal Services.¹⁵

Within the EDI Strategic Plan, the IRS has outlined several planned strategies at the SES level that align with one of its corporate priorities, which is to attain diverse representation at the SES level. For example, within goal one of the strategic plan, the Office of EDI plans to:

- Monitor the SES CDP and other IRS leadership program applicant selection processes to ensure equal opportunity.
- Collaborate with the IRS HCO to develop a diversity-focused marketing/outreach plan to market SES CDP and other leadership programs.
- Partner with the IRS HCO, the Office of Program Evaluation and Risk Analysis, and the Functional/Business Operating Divisions EEO Director (currently renamed Equity, Diversity, and Inclusion) offices to analyze workforce demographics that will help identify and eliminate barriers in order to achieve full participation in all levels within the IRS.
- While not specifically focused at the SES level, the IRS plans to partner and collaborate with community organizations, public and private agencies, affinity groups, professional associations, and educational institutions to promote recruitment of and outreach to

¹⁵ The EDI Strategic Plan was also shared IRS-wide and the Office of EDI has plans to prepare an annual report on the progress toward achieving the plan's goals and objectives.



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targeted populations. These planned strategies outline the IRS's strategic focus on diversity outreach IRS-wide and with leadership development programs that provide advancement to the SES level.

The IRS FY 2009 MD-715 report discussed two triggers:¹⁶ (1) low participation rates of persons with targeted disabilities, as compared to the EEO Commission's Federal goal of 2 percent, and (2) low participation rates of Hispanic males, as compared to the civilian labor force. We evaluated the IRS FY 2009 MD-715 report and, while it addressed the two underrepresented categories listed above, it included only one action plan that addressed underrepresentation at the SES level, specifically a plan to eliminate underrepresentation of Hispanic males. The IRS explained that the balance of its underrepresented groups (*e.g.*, persons with a targeted disability) would be met if only one or two employees in this category were hired or promoted to the SES level, thus the development of action plans within the MD-715 are focused on the most significant areas of underrepresentation. Therefore, specific actions plans for persons with targeted disabilities at the SES were not included in the FY 2009 MD-715 report.

Business unit diversity initiatives

The business unit Commissioners shared with us their individual perspective, approach, and commitment to ensure diversity agency-wide. They also shared some of the ongoing diversity initiatives they have underway within their business units.

SES level:

- The Wage and Investment Division, Small Business/Self-Employed Division, and Modernization and Information Technology Services organization have established individual ERBs that provide a forum to address diversity in the respective business units.
- The Wage and Investment Division performed a diversity assessment in its Senior Management Readiness program and established an awards program that recognizes outstanding achievement in EEO and diversity.
- The Wage and Investment Division, Small Business/Self-Employed Division, Large Business and International Division, and Modernization and Information Technology Services organization include the unit's EEO and Diversity Director at some or all of the unit ERB meetings to provide information such as current workforce demographic data.

¹⁶ A trigger is information that alerts the agency to a possible barrier. Triggers require additional investigation or scrutiny to determine if a barrier exists. Triggers are commonly referred to as "red flags."



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Organization wide:

- The Large Business and International Division instituted a diversity council whose goal is to identify strategic trends and issues related to EEO, diversity, and inclusion.
- The Modernization and Information Technology Services organization had a diversity study performed by an outside consulting firm. An assessment of the historical and contemporary working conditions along with recommendations was made for the entire organization.
- The Small Business/Self-Employed Division created a diversity and EEO advisory committee that identifies issues, trends, and actions to encourage and support an inclusive and diverse workforce.

The IRS has devoted significant efforts to develop a culture that embraces diversity at all levels. In addition, since FY 2009, the IRS has been developing and implementing diversity practices discussed above in order to implement the EDI strategic plan.¹⁷ We believe memorializing the IRS's key diversity practices in formal internal procedures will help ensure they continue to receive the level of commitment that currently exists, in spite of retirements, attrition, or other changes in the IRS's top leadership ranks. If the level of commitment and accountability at the top levels were to lessen or to focus on different issues, the progress on diversity initiatives may experience delays. For example, if a decision was made in the future to change the quarterly Business Process Review or MD-715 progress reports to semiannual or annual progress reports, or if the Director, EDI, no longer reported to the IRS Commissioner or was no longer a voting member on the various executive boards, the ability of the Office of EDI to drive diversity efforts across the IRS would be lessened. Other Federal agencies who may want to adopt some of the IRS's diversity practices to improve diversity in their SES or feeder pool levels would need to ensure they adopted the key elements that support and build on the other elements. For example, if other agencies developed an EDI Strategic Plan but did not have quarterly reporting to the Office of EDI Director on the progress of the various diversity initiatives or did not have the accountability at the Deputy Commissioner level, they may not achieve the level of progress that the IRS has achieved in its SES diversity.

¹⁷ In addition to the EDI Strategic Plan, Corporate Priorities, and the annual MD-715 reports, the IRS advised us it has developed several other approaches for addressing diversity at all levels of the IRS, including the SES level. Some of these practices are documented in the Federal EEO Recruitment Plan; the IRS Recruitment Office Strategic Recruitment Plan; the IRS Plan for Recruitment, Hiring, and Retention of Individuals With Disabilities/Targeted Disabilities; and the IRS Recruitment Office Communication Strategy.



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Management Actions:

During the conduct of our audit, the IRS advised us of additional diversity efforts it had begun which address several of the observations we made. For example, the IRS's FY 2010 MD-715 report issued in February 2011 includes an objective to increase the diversity of the SES so that it is reflective of the workforce it leads by ensuring that:

- Transparency exists in SES selections.
- The IRS engages in long-term succession planning that incorporates diversity management as a guiding principle.
- The IRS creates clear benchmarks for diverse outreach and recruitment strategies to attract a highly qualified candidate pool to the SES and feeder groups.
- The IRS creates a comprehensive strategy to recruit and retain persons with targeted disabilities at all levels of leadership.
- Factors such as work-life balance and unconscious bias are not impeding the rise of qualified women to the executive level.

Recommendation

Recommendation 1: The Deputy Commissioner for Operations Support and the Deputy Commissioner for Services and Enforcement should ensure that the IRS's key diversity practices are memorialized within EDI internal guidance (policies and procedures).

Management's Response: The IRS Human Capital Office and the Office of EDI will partner to review existing written policies and revise them, if necessary, to ensure these documents accurately capture current practices.

The Internal Revenue Service Can Leverage Efforts in Promoting Diversity at the Senior Executive Service Level by Partnering With Professional Executive Organizations

Partnering with professional executive organizations could help enhance diversity at the SES level within the IRS. The current IRS executive outreach practices with professional organizations have been focused on participating at the Internal Annual Conferences of agency-wide employee organizations (such as the Association for the Improvement of Minorities, Asian Pacific American IRS Employees, Hispanic IRS Employees, the IRS Deaf



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Empowerment and Advocacy Forum, and the Visually Impaired Employees Workforce).¹⁸ These conferences involve all levels of employees and have been used as a platform to promote diversity, help employees address challenges in progressing up their career ladder, and increase the amount of interest of those aspiring to reach the senior management and SES levels. Although the IRS has focused its attention on diversity outreach practices agency-wide, the IRS could benefit by expanding these efforts to have a more specific focus at the SES level by participating with professional executive organizations.

We spoke to representatives of several Federal Government executive organizations¹⁹ to discuss some of the efforts those organizations are making to assist their members in becoming executives, and also to get their perspective on how well the Federal Government is promoting a diverse workforce. These organizations have established partnerships with Federal agencies where their members are invited to agency events to discuss the organization's progress in establishing relationships with Federal agencies, activities associated with their mentoring program, and diversity issues faced by their members. Representatives of these organizations told us Federal agencies face several challenges in promoting diversity.

First, they were concerned with how Federal agencies define diversity within each agency, stating that Federal agencies need to think more robustly about diversity than in just racial and/or ethnic terms. The results of this audit show that the IRS already thinks of diversity in comprehensive terms.

A second challenge identified by the executive organization representatives is that Federal agencies need to simplify hiring processes by reducing the time it takes to select and bring a new executive on board. A representative stated that in many cases, it has taken up to one year before a qualified candidate is hired. Top-level executive prospects generally will not be able to wait long periods of time when deciding whether to accept a job offer. Further, a concern that these executive organizations have with Federal agencies is the lack of accountability to ensure that diversity efforts are measured and enforced. For example, one representative stated that Federal agencies should ensure that managers are held accountable for promoting diversity and those who encourage diversity efforts should be recognized through performance ratings and bonuses.

¹⁸ The Association for the Improvement of Minorities educates and develops members to their fullest career and personal potential free from negative influence and discriminatory policies and practices; Asian Pacific American IRS Employees helps to foster opportunities for professional development and personal growth for members; Hispanic IRS Employees prepares its members for the future; Deaf Empowerment and Advocacy Forum strives for a fully integrated, accessible workforce for the deaf and hard of hearing; and the Visually Impaired Employees Workforce improves the quality of visually impaired employees' daily workplace experience and environment.

¹⁹ These professional organizations include the National Association of Hispanic Federal Executive, the African American Federal Executive Association, the Senior Executive Association, and the Asian American Government Executive Network. In general, the purpose of these organizations is to sponsor programs that enhance opportunities for members to serve our Nation in senior-level Government positions.



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The IRS could benefit from expanding its participation with professional executive organizations. Because these are executive-level organizations, they may provide a broader focus and exposure for executive-level applicants. For example, these voluntary organizations offer services from mentoring members who aspire to become executives to hosting conferences and seminars that provide current and future Federal executives with updated skills and information needed for effective and efficient leadership in the Federal Government.

The IRS HCO should take the opportunity to advise employees of the existence of the various professional executive organizations. Interested employees could then determine whether these organizations could assist in their self-development efforts toward the SES level. In addition, if the IRS expanded its relationships with professional executive organizations, it could create opportunities for the IRS to recruit external diverse applicants into the IRS's executive recruitment initiatives, thereby further expanding its diverse applicant pool. Finally, expanding its relationships with professional executive organizations would allow the IRS to gain additional insight on the diversity issues confronting the executive community.

Recommendations

Recommendation 2: The Deputy Commissioner for Operations Support and the Deputy Commissioner for Services and Enforcement should consider partnering with Federal professional executive organizations to gain additional insight on diversity issues in the Federal executive community, identify mentoring practices, and use these partnerships as a tool to recruit executive applicants.

Management's Response: The IRS concurs with this recommendation that partnering with external stakeholders like professional organizations is a good practice and will continue to foster existing partnerships and begin new ones with these types of organizations. The IRS stated that on September 27, 2011, it reached out to five Federal Executive Associations and plans to extend its efforts to an additional 40 executive and professional associations in FY 2012.

Recommendation 3: The IRS Human Capital Office should consider ways to communicate to employees the existence of professional executive organizations that may assist employees in their self-development efforts toward higher level and SES positions.

Management's Response: The IRS will communicate to all employees about the external organization with which it partners. The communication will include links to various external organizations to promote increased awareness.



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Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this review was to determine the level of diversity in the IRS SES appointments and whether the IRS has an effective strategy that complies with applicable laws and regulations to achieve diversity within executive positions. To accomplish our objective, we:

- I. Identified and summarized all applicable guidance, standards, and procedures regarding SES diversity and determined whether the IRS's strategy was compliant.
 - A. Identified and summarized all applicable IRS and Government-wide policies, procedures, and requirements the IRS is required to comply with regarding SES diversity.
 - B. Determined whether the IRS's strategy is compliant with all applicable guidance and standards.
- II. Determined the purpose of the ERB and whether it ensures diversity is achieved at the SES level.
 - A. Interviewed key representatives of the ERB and:
 1. Determined the roles and responsibilities of the ERB.
 2. Determined how the board defines diversity and how it is applied in its SES and senior-level recruiting strategy.
 3. Determined the recruiting and selection process for CDP and SES appointments.
 - (a) Determined who on the board is involved with the recruiting process.
 - (b) Obtained a copy of the recruiting and selection procedures for CDP and SES appointments and determined their impact on diversity.
 - (c) Determined whether the recruitment and selection processes are compliant with the policy of the IRS Office of Civil Rights, Diversity, and EEO.
 - (d) Determined the ERB's outreach efforts to promote and encourage diversity in the CDP.
 4. Determined whether the ERB has a strategic plan for SES initiatives.
 5. Determined whether there are specific criteria to prioritize diversity issues to be placed on the agenda and discussed at the ERB meetings.



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- B. Obtained agendas and key decisions made as they relate to diversity and determined how often diversity is discussed and what decisions have been made at the ERB meetings.
 - C. Identified the number of SES appointments that will be eligible to retire within the next three years.
- III. Determined the role of the IRS Human Capital Officer in ensuring diversity at the SES level.
- A. Interviewed the IRS Human Capital Officer and determined the HCO's role and responsibility for assisting the IRS in ensuring diversity at the SES level.
 - B. Obtained and reviewed policies, guidance, publicity, or other documents issued by the HCO to carry out its role and responsibility.
 - C. Determined whether the IRS Human Capital Officer provides any input to the annual MD-715 report.
- IV. Determined the purpose of the IRS Headquarters Office of EDI and the headquarters EEO and Diversity Director and how they are providing oversight at the SES level to ensure diversity.
- A. Interviewed the IRS Executive Director, Headquarters Office of EDI, and determined the process used to solicit information to be included in the annual MD-715 report. We also determined whether the Office of EDI solicits information from the ERB for the annual MD-715 report regarding barriers associated with SES initiatives.
 - B. Interviewed the headquarters EEO and Diversity Director and determined:
 - 1. The level of involvement with SES initiatives.
 - 2. The interaction between the headquarters EEO and Diversity Director and the embedded business unit EEO and Diversity Directors.
 - 3. The type of outreach conducted to attract potential applicants into the executive development programs (*i.e.*, CDP).
 - 4. Whether the embedded business unit EEO and Diversity Directors' input to the annual MD-715 report includes identifying barriers related to SES initiatives.
 - C. Determined the roles and responsibilities of the headquarters EEO and Diversity Director as they relate to ensuring diversity at the SES level.
 - D. Selected and interviewed three embedded business unit EEO and Diversity Directors (Modernization and Information Technology Services organization, Small Business/Self-Employed Division, and Wage and Investment Division) and determined the level of their involvement with SES initiatives and diversity at the SES level.



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- V. Determined whether the IRS's strategy is effective in tracking its progress in achieving SES diversity initiatives.
- A. Interviewed key representatives of the ERB and determined whether:
 - 1. The ERB has established a tracking methodology to develop and assess its SES diversity initiatives.
 - 2. The ERB has developed and implemented policies and procedures that are consistent in providing oversight and accountability over its SES initiatives and whether such policies and procedures are consistent with the ERB's strategy to promote diversity in its SES program.
 - B. Determined whether the ERB has identified certain benchmarking standards consistent with average statistics related to other Federal agencies by race, gender, age, and targeted disabilities¹ to ensure fair and equal representation in the SES ranks.
 - C. Contacted the HCO and obtained statistical information from FY 2004 through FY 2009 on the IRS's SES and feeder groups' demographic make-up by race, gender, and targeted disabilities. We reviewed these reports and performed a comparative analysis with the United States workforce statistics and determined whether there are any significant trends.
 - D. Contacted the OPM and obtained statistical information from FY 2004 through FY 2009 on other Federal agencies' SES demographic make-up by race, gender, and targeted disabilities. We reviewed these reports and performed a comparative analysis with IRS statistics and determined whether there are any significant trends.
- VI. Determined the progress of the IRS strategy to eliminate barriers related to diverse underrepresentation in its developmental programs and SES appointments.
- A. Interviewed key representatives of the ERB and determined whether the ERB reports on SES initiatives in the annual MD-715 report, the reporting process, and the initiatives that have been reported.
 - B. Interviewed key representatives of the ERB and determined whether any challenges have occurred related to recruiting and hiring a diverse group of applicants into the executive development programs (*i.e.*, CDP, Executive Readiness) or making SES appointments.

¹ Targeted disabilities refers to individuals that have deafness, blindness, paralysis, missing extremities, convulsive disorders, distortion of limbs or spine, mental illness, or mental retardation.



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Internal controls methodology

Internal controls relate to management's plans, methods, and procedures used to meet their mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. We determined the following internal controls were relevant to our audit objective: the ERB practices in executing SES initiatives, the annual MD-715 reporting, and the organizational "control environment" or "tone at the top" of management's attitude, awareness, and actions relative to SES diversity initiatives. We evaluated these controls by reviewing documentation and interviewing management executives and staff employees.

Validity and reliability of data from computer-based systems

We obtained demographic data on IRS employees from the Office of Program Evaluation and Risk Analysis for the time period FY 2004 through FY 2009. The source of the data was the Employee Master Database. To verify the reliability of the data, we performed some queries to test whether the data were complete. We determined that from a total of 25,416 records obtained, 15 of the records had no more than two fields missing. We determined this number was not material to our data validity and subsequently dropped them from our analysis.



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Appendix II

Major Contributors to This Report

Nancy A. Nakamura, Assistant Inspector General for Audit (Management Services and Exempt Organizations)
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Appendix III

Report Distribution List

Commissioner C
Office of the Commissioner – Attn: Chief of Staff C
Commissioner, Large Business and International Division SE:LB
Commissioner, Small Business/Self-Employed Division SE:S
Commissioner, Tax Exempt and Government Entities Division SE:T
Commissioner, Wage and Investment Division SE:W
Chief, Agency-Wide Shared Services OS:A
Chief Technology Officer OS:CTO
IRS Human Capital Officer OS:HC
Executive Director, Equity, Diversity and Inclusion EEO
Chief Counsel CC
National Taxpayer Advocate TA
Director, Office of Legislative Affairs CL:LA
Director, Office of Program Evaluation and Risk Analysis RAS:O
Office of Internal Control OS:CFO:CPIC:IC
Audit Liaisons:
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 Commissioner, Small Business/Self-Employed Division SE:S
 Commissioner, Wage and Investment Division SE:W
 Director, Communications and Liaison, Tax Exempt and Government Entities Division
 SE:T:CL
 Chief, Agency-Wide Shared Services OS:A
 Chief Technology Officer OS:CTO
 IRS Human Capital Officer OS:HC



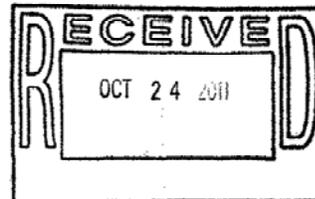
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Appendix IV

Management's Response to the Draft Report



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224



October 24, 2011

MEMORANDUM FOR TREASURY INSPECTOR GENERAL FOR TAX
ADMINISTRATION
ATTENTION: DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Debra Chew 
IRS Human Capital Officer

SUBJECT: Response to Draft Audit Report - The Internal Revenue Service
Diversity Demographics Compare Favorably with other Federal
Agencies' Senior Executive Service Ranks (Audit # 200910003)

We have reviewed the subject draft report and appreciate your recognition of the successes the IRS has achieved in our Senior Executive Service (SES) diversity demographics and the steps we have taken to integrate diversity practices into our business processes.

The IRS commitment to diversity begins at the top and is something of which we are very proud. In 2010, the Commissioner stated, "I am convinced that the unique attributes of each employee offer incalculable benefits to our organization. Therefore, I am committed to not only creating a working environment that is free from discrimination and other barriers to full participation, but also welcomes people from all backgrounds, and reflects the taxpaying public we serve." Our IRS Strategic Plan, which flows to all levels of the Service, emphasizes the importance of diversity as a critical business imperative aimed at building a strong workforce.

Attached is a detailed response to address your recommendations. If you have any questions regarding this information, please contact Debra Chew, IRS Human Capital Officer at (202) 622-7676 or Kim Barczak, Acting Director, Executive Services Division at (202) 622-6320.

Attachment



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Attachment

**TIGTA Audit # 200910003 - The Internal Revenue Service Diversity Demographics
Compare Favorably with other Federal Agencies' Senior Executive Service Ranks**

IRS Responses to Recommendations:

Recommendation 1: The Deputy Commissioner for Operations Support and the Deputy Commissioner for Services and Enforcement should ensure that the IRS's key diversity practices are memorialized within EDI internal guidance (policies and procedures).

Comments:

As TIGTA found, the bedrock of IRS's successful diversity strategy is top level executive commitment and support coupled with sound diversity management principles where diversity and inclusion is woven into the business and human capital processes. Essentially, the best written policies, processes, and strategies are not enough without the support and actions that reflect commitment from the top.

CORRECTIVE ACTION(S): The IRS recognizes that documentation can only supplement and strengthen its diversity and inclusion efforts. In fact, prior to the issuance of this report, the Office of Equity, Diversity and Inclusion (EDI) has already made significant efforts to memorialize the diversity and inclusion policies and strategies with documents such as the EDI Strategic Plan and draft documents such as the Diversity and Inclusion Internal Revenue Manual, Diversity and Inclusion Philosophy, and Business Case for Diversity.

Though TIGTA recommends that policies be documented within EDI internal guidelines, IRS knows that EDI does not act alone in ensuring diversity and inclusion exist within the SES and across the Service. Other IRS divisions, in particular those within the Human Capital Office, such as Executive Services and Leadership, Education and Delivery Services, as well as the Executive Resources Board are also key players.

The goal is to create a transparent process for all IRS employees who strive to reach the SES ranks. HCO and EDI will partner to review existing written policies and revise, if necessary, to ensure these documents accurately capture current practices.

IMPLEMENTATION DATE: February 29, 2012

RESPONSIBLE OFFICIAL(S): IRS Human Capital Officer (Lead)
Executive Director, Equity, Diversity and Inclusion

Recommendation 2: The Deputy Commissioner for Operations Support and the Deputy Commissioner for Services and Enforcement should consider partnering with Federal professional executive organizations to gain additional insight on diversity



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issues in the Federal executive community, identify mentoring practices, and use these partnerships as a tool to recruit executive applicants.

Comments:

The SES Candidate Development Program (CDP) is the principal means through which the IRS seeks to identify and hire our career executive corps. The IRS has advertised and promoted diversity awareness to the CDP by recruiting for this program in multiple external publications and on websites such as: Association for Latino Professionals in Finance/Accounting, National Association of Blacks in Government, National Association of Black Accountants, and American Society of Women Accountants. In addition to those previously named, the IRS is currently partnering with National Society of Hispanic MBAs, League of United Latin American Citizens, Federally Employed Women, National Association of Asian American Professionals, National Organization on Disability, American Association of People with Disabilities, and National Council on Disability.

CORRECTIVE ACTION(S):

The IRS concurs that partnering with external stakeholders, like professional organizations, is a good practice and we will continue to foster existing partnerships and begin new ones with these types of organizations. On September 27 of this year, the IRS reached out to five Federal Executive Associations. Outreach efforts to an additional 40 executive and professional associations are planned for FY 2012.

IMPLEMENTATION DATE: September 30, 2012

RESPONSIBLE OFFICIAL: IRS Human Capital Officer

Recommendation 3: The IRS HCO should consider ways to communicate to employees the existence of professional executive organizations that may assist employees in their self-development efforts toward higher level and SES positions.

Comments:

Currently the IRS collaborates with internal organizations, such as the Asian Pacific Internal Revenue Employees, Association for the Improvement of Minorities, Federal Employed Women, Hispanic Internal Revenue Employees and other similar employee organizations, dedicated to recruiting and promoting better opportunities for minorities in the workplace. Additionally, we communicate to all employees about career development, job announcements and other growth opportunities via the IRWeb Intranet webpage, Leader's Alert, All Employees emails, Spotlight and our Career Opportunities List. The IRS agrees to continue to reach out to employee organizations and communicate to employees about these professional organizations and their services.



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The IRS also currently partners with a significant number of minority facing organizations, a few of which were named in Recommendation 2, and will continue to do so.

CORRECTIVE ACTION(S): The IRS will communicate to all employees about the external organization with which it partners. The communication will include links to various external organizations to promote increased awareness.

IMPLEMENTATION DATE: December 31, 2012

RESPONSIBLE OFFICIAL: IRS Human Capital Officer