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Three Takeaway Lessons from the GAO Audit of the Federal Reserve



By DANA LIEBELSON

Bailouts and financial oversight are making headlines again this week with the [ongoing Wall Street protests](#) and the [three-year anniversary](#) of the bailout legislation. Thanks to the passage of the [Dodd-Frank Act](#) and a recent [Government Accountability Office \(GAO\) audit](#), we're continuing to learn more about the extraordinary emergency assistance provided by the Federal Reserve during the worst moments of the financial crisis.

Today, the House Financial Services Subcommittee on Domestic Policy and Technology held a [hearing](#) to review the GAO audit and explore additional opportunities for improving oversight of the Fed, including [legislation introduced by Subcommittee Chairman Ron Paul \(R-TX\)](#) that would allow for a full audit.

Here are the lessons POGO took away from today's hearing:

Fed Oversight Lesson 1: There are still limits to the GAO's audit authority

The GAO's [audit of the Federal Reserve](#), which was published in July 2011, was a one-time deal. It was authorized for a specific purpose, which was to examine emergency loan programs and other assistance authorized by the Federal Reserve Board from December 1, 2007 to July 21, 2010. Dodd-Frank authorized the GAO to conduct similar audits of emergency lending programs moving forward, but the audits can't be released to the public until one year after the emergency lending facility is terminated.

In addition, several Subcommittee Members at the hearing expressed interest in giving the [GAO](#) more authority to do regular auditing, including examinations of the Fed's monetary policy decisions and its lending to foreign banks. GAO audits are unique in comparison to [existing financial audits of the Fed](#) because the GAO can focus on the "operational integrity" aspects of the Fed's programs. Given that there are still gaps in oversight of the Fed (and outstanding loans that haven't been repaid), regular independent auditing by the GAO would be a promising step towards transparency.

Fed Oversight Lesson 2: Conflict-of-interest policies should be strengthened

Orice Williams-Brown, director of financial markets and community investments for the GAO, said in the hearing that the audit found "a number [of instances] that raise issues and have the appearance of conflict of interest." For example, the GAO discovered that

senior officials at the [Federal Reserve Bank of New York held stock in some institutions that received assistance](#).

Mark Calabria, director of financial regulations at the [Cato Institute](#), pointed out that the same companies were repeatedly named in the GAO report, suggesting that the benefits of bailout programs often go to the same handful of organizations. Calabria said he is “worried about the revolving door between the Fed and Wall Street,” and also pointed out that “the revolving door between the Fed and the Treasury Department further undermines operational independence.”

Williams-Brown said the Fed still has the opportunity to take additional steps to strengthen its management of conflicts of interest involving Fed employees and vendors.

Fed Oversight Lesson 3: More transparency is a good thing (like when identifying counterparties)

In 2009, POGO wrote a [letter](#) to the Federal Reserve Board arguing that the Fed’s withholding of crucial information about American International Group’s (AIG) counterparties gave a “troubling appearance of favoritism”—particularly towards Goldman Sachs, one of AIG’s most prominent counterparties.

But for a while, the Fed refused to release these names, alleging that doing so would “risk further turmoil” and make companies less likely to do business with anyone receiving government funds, as then-Federal Reserve Vice Chairman Donald Kohn [put it](#).

Well, the Fed finally released the names, and none of these doomsday protections came true. According to Calabria’s [opening statement](#), “when these names were released, the world did not come to an end...the Fed has a long tradition and strong preference for secrecy.”

Additionally, Williams-Brown stated that the GAO found a [2 percent discrepancy](#) in the collateral pledged by borrowing institutions. Subcommittee Chairman Paul said at hearing, “More people now are starting to realize the Fed is truly not independent from influence...I usually think once there’s an emphasis on independence, it means secrecy for the Fed.”

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