



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

Subject Card

APR 22 1977

Released

S-114831
S-118535
S-168904

The Honorable Jack Brooks
Chairman, Committee on Government
Operations
House of Representatives

Dear Mr. Chairman:

Your letter dated March 14, 1977, requested our comments on H.R. 4469, a bill to provide the Comptroller General with explicit authority to audit the bank supervisory functions of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency.

As you are aware there have been many bills introduced in the Congress in recent years to provide for audits by our Office of the three Federal bank regulatory agencies. We believe that it is important that any bill finally enacted by the Congress contain minimum restrictions on our audit authority.

We testified on March 2, 1977, before your Subcommittee on Commerce, Consumer, and Monetary Affairs on H.R. 2176, a bill which also would provide us with explicit audit authority over the bank regulatory agencies. We expressed concern with the restrictions on our audit authority that were included in that bill, specifically the exclusion of Open Market Committee transactions. A copy of Assistant Comptroller General Morse's statement is enclosed.

H.R. 4469 contains even more restrictions than H.R. 2176 and, in effect, may not permit us to review even the areas included in our recently completed study. We, therefore, have serious reservations with H.R. 4469. Our comments regarding specific sections of the bill follow.

Areas of audit

It is our view that the scope of GAO's audit authority should extend not only to those activities that are directly

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and clearly related to the bank supervisory process but also to all other activities of the three banking agencies. The language of subsection (d)(1) could create problems in determining what subjects are "directly and clearly related to the bank supervisory process." Would GAO be permitted to audit such areas as (1) the agency's supervision of bank holding companies, Edge Act and "agreement" corporations, (2) the agency's use of the "discount window" as lender of last resort, (3) the income and expenses of the regulatory agencies, (4) the insurance fund, (5) the agency's handling of structural changes in the banking system such as the approval and disapproval of applications for new branches and bank mergers, or (6) the handling of bank failures? We believe that the language of H.R. 4469, if enacted, could create serious disagreements between GAO and the bank regulatory agencies as to what areas we were authorized to review. We might be precluded from reviewing a number of important areas in bank supervision. Accordingly, we suggest that the language of subsection (d)(1) be changed to authorize GAO audits of all activities of the banking agencies. Any desired exceptions to this broad authority should be explicitly stated.

Access to agency records

We have no objections to the first two sentences of subsection (d)(2).

Frequency of reviews

We believe that it is desirable to authorize the Comptroller General to schedule audits as he deems appropriate. We believe that such authorization would permit our Office to be more responsive to the needs of the Congress and its committees. It would also permit our Office more flexibility in allocating our resources.

Arrangements with respect to availability of records, space, and storage of workpapers

We have no specific objection to the arrangements set forth in subsection (d)(2); however, we believe that such details can best be worked out between GAO and the agencies

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on an informal basis as is our normal procedure and thus are not a legislative necessity.

Conducting separate examinations of banks

We believe the prohibition against the GAO conducting separate examinations of banks to evaluate the accuracy of the examiner's factual findings would hinder our ability to fully evaluate the adequacy of agencies' supervision of banks. While we do not expect to make broad use of authority to make such examinations or even to observe the agency's examination of banks, some testing and verification of the examiner's factual findings would be a necessary step to fully evaluating the adequacy of the agencies' bank examination program.

Agency comments on GAO reports

Our Office has taken the position that one of the most effective ways to insure that our reports are fair, complete, and objective is to obtain advance reviews and comments by persons or by officials of organizations whose activities are discussed in the reports. Our normal operating procedure is to afford those so affected with a reasonable opportunity to comment on our reports before releasing the reports. We believe that the proposed legislative time frames for obtaining advance review and comments are unnecessary and that such matters can best be handled on a case-by-case basis with the agencies.

Identifying banks and bank customers

We have no objections to the prohibition in subsection (d)(3) against identifying specific banks or bank customers.

Limitations on audit of FRS

We do not agree with the limitations set forth in subsection (d)(4) with regard to performance audits of the Federal Reserve System. Our views on such limitations were explained during hearings on H.R. 2176 (enclosed statement).

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In addition, we suggest the following technical changes:

In the third sentence of subsection (d)(2), change "very" to "every."

In subsection (d)(4)(B), change "deliverations" to "deliberations."

We shall be pleased to discuss this matter further with you or your staff.

Sincerely yours,

(Signed) ELMER B. STAATS

Comptroller General
of the United States

Enclosures

DELEGATION OF AUTHORITY
Comptroller General to subordinates
Dept collections
Exceptions to forwarding requirement
Approval
DEBT COLLECTIONS
Reporting to General Accounting Office
Exceptions
Authority to approve
Delegation to Director, Claims Div.
Federal Reserve System
Federal Deposit Insurance Corp and Comptroller of Currency

FEDERAL RESERVE
Audit authority
Proposed legislation to expense
GENERAL ACCOUNTING OFFICE
Audits
Federal Reserve System