



Highlights of [GAO-09-270](#), a report to the Ranking Member, Committee on Finance, U.S. Senate

Why GAO Did This Study

For entities that rely on others for funding, effective governance, accountability, and internal control are keys to maintaining trust and credibility. In recent years, corporate governance and accountability have received increased scrutiny and emphasis in the nonprofit, federal government, and public company sectors. Governance and accountability problems have also been identified at designated federal entities (DFE) such as the Smithsonian Institution, the Legal Services Corporation, and the Pension Benefit Guaranty Corporation.

This report responds to a congressional request that GAO describe (1) the statutory structure of the governing bodies for each DFE organization and (2) the role of the inspectors general (IGs) in the governance structure. To accomplish this, GAO surveyed the DFE heads and IGs on governance issues and reviewed information from a variety of sources, including the IG Act and subsequent amendments; enabling legislation for the DFEs; and legislative and regulatory standards and requirements for financial reporting and internal control.

GAO is not making specific recommendations in this report, but is providing this information for consideration in future efforts to update the governance of DFEs, oversee the entities and their IGs, and continue work to improve the effectiveness of government. GAO received technical comments, which were incorporated as appropriate.

[View GAO-09-270](#) or [key components](#). For more information, contact Jeanette Franzel at (202) 512-2600 or franzelj@gao.gov.

DESIGNATED FEDERAL ENTITIES

Survey of Governance Practices and the Inspector General Role

What GAO Found

The DFEs vary in structure and requirements for governance. At the time of GAO's review, the designated size of the governing bodies of the 31 DFEs ranged from 1 to 24 members. Fifteen had at least one vacancy and 2 had more vacancies than sitting members. The frequency of DFE multimember governing-body meetings ranged from daily to rarely or not at all. In GAO's survey of DFEs, 13 indicated that they are required to comply with 12 key statutes that cover management and accountability. The remaining 18 reported varying requirements, with one not subject to any of the statutes. Only 7 DFE governing bodies have a structure that includes governance or oversight committees for ensuring oversight of management decisions, results of operations, and emerging risks. While 19 DFEs reported having orientation programs for new governing body members, only 9 reported ongoing training.

IG effectiveness is influenced by an entity's governance structure and practices. Within DFEs, IGs vary in their role and relationship with management. IGs are charged with preventing and detecting fraud and abuse; conducting audits and investigations; and recommending policies to promote economy, efficiency, and effectiveness. To accomplish these objectives, IGs must be able to establish and maintain independence; have control of their resources to plan and perform work; recruit, retain, and manage sufficient professional staff; and be able to resolve audit and investigation recommendations. GAO's survey of IGs showed that most report to the highest levels in their entities, a legislative requirement that is a key element of independence. At the same time, the IGs had limited control over their resources, and their budgets and staffing were not always adequate to perform needed audits and investigations. Only 3 IGs had the transparency that a separate line item in their entity's budget provides, and 8 needed management approval for spending. Audit resolution varied, with some IGs reporting a lack of entity responsiveness to recommendations. Only 10 DFEs reported that their governing bodies have written policies for monitoring the implementation of IG recommendations. Nine of the 10 have policies that require the governing body to respond in writing and to develop a plan to address recommendations. During the course of GAO's work, Congress passed and the President signed into law on October 14, 2008, the Inspector General Reform Act of 2008, which was intended to enhance IG independence. Its implementation may mitigate some of the issues GAO found.