

United States Senate

WASHINGTON, DC 20510

July 24, 2023

Mr. Mark Bialek
Inspector General
Board of Governors of the Federal Reserve
System
20th Street and Constitution Avenue NW
Washington, DC 20551

Dear Mr. Bialek:

We write regarding our concerns about the conflicts of interest you face in your role as the Federal Reserve (Fed) Inspector General (IG).

Our particular concern is that you are a “designated federal entity”¹ Inspector General, meaning that you are named to your position by the head of your agency – in your case, the Chair of the Board of Governors of the Federal Reserve, and that you can be removed from office by a majority of the Board. As we learned in our hearing before the Banking, Housing, and Urban Affairs Committee’s Subcommittee on Economic Policy on May 17, 2023, “you are supposed to be the watchdog of exactly the people who have the power to hire and fire you” – a position that put you “in an impossible, compromised position when it comes to investigating wrongdoing at the Fed.”²

We learned in that hearing about a troubling matter involving a clear conflict of interest related to your salary. In an exchange with Sen. Kennedy, you were asked about your salary and how it is established:³

Sen. Kennedy: Tell me ... about your salary...

Mr. Bialek : It’s the average of both the salary and the bonus that is attributed to the other individuals who are similarly situated in terms of the organizational structure, which for me is the divisional director level, so there are twelve other individuals and it’s the average of their salary plus their bonus.

¹ Council of the Inspectors General on Integrity and Efficiency, “About the IGs,” 2023, <https://www.ignet.gov/content/about-igs>.

² Senate Committee on Banking, Subcommittee on Economic Policy, “Strengthening Accountability at the Federal Reserve: Lessons and Opportunities for Reform,” May 17, 2023, <https://www.banking.senate.gov/hearings/strengthening-accountability-at-the-federal-reserve-lessons-and-opportunities-for-reform>.

³ *Id.*

You also appeared to confirm in response to Sen. Kennedy that all 12 of those “similarly situated” individuals get a bonus. And you described the way this arrangement works in response to another set of questions from Sen. Warren:

Sen. Warren: Your compensation is the average of the other people who you investigate...it’s their salaries plus their bonuses. So if your investigation finds they did really bad and stupid things that causes them not to get bonuses, what happens to your compensation?

Mr. Bialek: If there is a reduction in one of those individual's bonuses –

Sen. Warren: So you make less money –

Mr. Bialek: That is correct.

Sen. Warren: – if you find wrongdoing in the people you oversee. Do you think that creates a conflict of interest?

Mr. Bialek: I do not, honestly....

This was a deeply troubling set of answers. It revealed that – because the Fed Inspector General’s salary is in part based on the bonuses earned by other Fed employees – there is a structural, financial incentive for the IG to overlook or downplay wrongdoing by those Fed officials.

These types of conflicts are why we have introduced legislation that would make the Federal Reserve Inspector General a Senate-confirmed position, providing the office with much-needed independence from the agency for which it is supposed to act as a watchdog. To inform us as we move forward with this legislation – and to help us understand the extent of the structural conflicts in the current IG office – we ask that you provide us with the following information within seven calendar days:

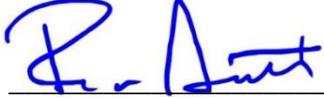
1. What has your salary been for each of the last five full calendar years?
2. What percentage of this salary each year was based on the average bonus component of your pay formula?
3. Please provide for each of the 12 Federal Reserve officials whose bonuses are used to compute the average bonus component of your salary:
 - a. The bonuses received in each of the last five calendar years.
 - b. The criteria upon which these bonuses were based.
4. Have you conducted any audits, evaluations, or inspections related to any of these twelve officials in the last five years?
 - a. If so, please list each audit, evaluation, or inspection.
 - b. Did you identify any wrongdoing by any of these officials in any of these audits, evaluations, or inspections?
 - c. If so, what remedies did you recommend? Specifically, did you recommend cuts or eliminations of any bonuses earned by these officials?
5. Have you conducted, in any of the last five years, any audits, evaluations, or inspections specifically related to bonus payments at the Federal Reserve? If so, please provide a list of all such audits, evaluations, or inspections, and their findings.

Thank you for your attention to this matter.

Sincerely,



Elizabeth Warren
United States Senator



Rick Scott
United States Senator