

GAO Highlights

Highlights of [GAO-14-551](#), a report to Chairwoman, Subcommittee on Financial Institutions and Consumer Credit, Committee on Financial Services, House of Representatives

Why GAO Did This Study

The Dodd-Frank Wall Street Reform and Consumer Protection Act authorizes CFPB to, among other things, enforce federal consumer law through judicial and administrative actions which may result in the payment of civil penalties by parties that violate the law.

GAO was asked to review CFPB's Civil Penalty Fund. This report examines how CFPB's Civil Penalty Fund (1) is administered and what controls are in place to guide the management of the fund and (2) compares to other civil money penalty funds and activities administered by other federal agencies. GAO reviewed CFPB documentation, policies and procedures related to the Civil Penalty Fund, and the financial audit statements for the fund. GAO also reviewed civil penalty funds or activities at seven federal agencies. To identify other similar federal funds, GAO reviewed its prior work and other published research, interviewed CFPB officials on what other funds they considered, and interviewed other federal officials.

What GAO Recommends

GAO recommends that the Fund Administrator document the specific factors considered in determining the amount of funding, if any, allocated to consumer education and financial literacy programs. CFPB generally agreed with GAO's recommendation.

View [GAO-14-551](#). For more information, contact A.Nicole Clowers at (202) 512-8678 or clowersa@gao.gov

June 2014

CONSUMER FINANCIAL PROTECTION BUREAU

Opportunity Exists to Improve Transparency of Civil Penalty Fund Activities

What GAO Found

The Bureau of Consumer Financial Protection, also known as the Consumer Financial Protection Bureau (CFPB), has developed a process for administering the Consumer Financial Civil Penalty Fund (Civil Penalty Fund). CFPB deposits collected civil money penalties into the fund to compensate eligible victims and may also use the fund for the purpose of consumer education and financial literacy programs. CFPB has implemented a number of internal controls for managing the fund. For example, CFPB has segregated key duties and responsibilities among staff, which is consistent with internal controls for reducing the risk of management error or fraud. CFPB has also implemented controls for tracking the collection of penalty funds, determining the allocation amount to classes of eligible victims, and monitoring the third-party vendors that distribute the funds. For example, in CFPB's Civil Penalty Fund Rule, the agency outlines a 6-month allocation schedule, which establishes a timeline for funds to be pooled and distributed. In addition, CFPB has written policies that describe roles and the process related to making allocations to consumer education and financial literacy programs. However, according to officials, CFPB did not document the factors the Fund Administrator considered in determining the allocation of funds for consumer education and financial literacy programs for the first allocation period. Federal internal control standards state that it is important to document significant events clearly and completely and to promptly record transactions and other significant events. Documenting the specific factors the Fund Administrator considers each time funds are allocated would make such decisions more transparent and would help to ensure that future allocation decisions are made in a consistent manner.

GAO found similarities and differences among CFPB's Civil Penalty Fund and the civil money penalty funds and activities of other agencies. Of the seven agencies GAO reviewed, three—Centers for Medicare and Medicaid Services, Commodity Futures Trading Commission, and Securities and Exchange Commission—have established four funds into which civil money penalties are deposited, based on statutory authority. Comparing these funds to CFPB's Civil Penalty Fund, GAO found:

- CFPB's Civil Penalty Fund and one other fund have the primary purpose of compensating harmed consumers or investors.
- Similar to CFPB's Civil Penalty Fund, three of the four funds that GAO examined can also use collected penalties for more than one activity.
- With the exception of one fund, all of the funds, including CFPB's Civil Penalty Fund, are "pooled funds"—meaning that collected penalties are aggregated in the fund and can be used for multiple purposes.
- Unlike CFPB's Civil Penalty Fund, two funds have a balance limit, and only one fund has used collected penalties to establish new offices or hire personnel.

The remaining four agencies do not have the authority to establish a fund and therefore transfer collected penalties to the U.S. Treasury.