



Executive Summary, 2024-FMIC-C-014, June 10, 2024

The CFPB Effectively Designed a Process to Allocate Surplus Civil Penalty Funds and Monitored Contractor Payments to Victims

Findings

The Consumer Financial Protection Bureau designed and documented a Civil Penalty Fund (CPF) allocation process that prioritizes victim compensation over funding consumer education and financial literacy (CEFL) programs. Prioritizing victim compensation, including maintaining a reserve to compensate future victims, and using operating funds for consumer education programs allows the agency to pay all eligible victims and continue to fund consumer education initiatives.

Further, the Governance and Compliance team provided effective oversight of the contractors that distributed payments to victims. Following these processes ensured that contractors satisfied contractual requirements and that eligible victims received accurate payments.

Recommendations

This report does not contain recommendations. In its response to our draft report, the CFPB concurs with our findings and states that the agency has worked to implement the CPF in a transparent and responsible manner that is consistent with all applicable laws and requirements.

Purpose

The objectives of this audit were to assess (1) the process design for allocating CPF funds for the purpose of CEFL programs and (2) the effectiveness of processes for overseeing the contractors distributing payments to victims. We initiated this audit for two reasons. First, although the CPF year-end balance has increased since the fund's inception, reaching \$1.9 billion by the end of fiscal year (FY) 2023, the CFPB had not allocated CPF funds for CEFL programs since FY 2016. Second, through FY 2022, the CFPB distributed more than \$650 million in payments from the CPF to victims, mostly through contractors.

For objective 1, our scope covered statutory requirements and procedures for allocating CPF funds to CEFL programs. For objective 2, our scope included the CFPB's contractor oversight processes for all five cases in which the CFPB used contractors to pay victims and for which the distributions were completed during FY 2020–FY 2022.

Background

The Dodd-Frank Wall Street Reform and Consumer Protection Act established the CPF to provide compensation to victims who have been harmed by violations of federal consumer financial protection laws and allows the CFPB, under certain circumstances, to use excess CPF funds for CEFL programs. In 2013, the CFPB issued the Civil Penalty Fund Rule, which authorizes the fund administrator to use a third-party contractor to distribute payments to victims.