



*Consumer Financial Protection Bureau
Independent Audit of Selected Operations
and Budget*

August 15, 2022

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EXECUTIVE SUMMARY

August 15, 2022

The Honorable Rohit Chopra
Director
Consumer Financial Protection Bureau
1700 G Street NW
Washington, DC 20552

Dear Mr. Chopra:

This report presents the results of our work conducted to address the performance audit objectives relative to the Consumer Financial Protection Bureau (hereinafter referred to as “CFPB” or “Bureau”). The scope of our work related to our audit objectives covered fiscal year 2020, our procedures were performed during the period March 23, 2022 to August 5, 2022, and our results, reported herein, are as of August 15, 2022.

We conducted this performance audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and recommendations based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and recommendations based on our audit objectives.

In addition to *Government Auditing Standards*, we conducted this performance audit in accordance with Consulting Services Standards established by the American Institute of Certified Public Accountants (AICPA). This performance audit did not constitute an audit of financial statements or an attestation level report as defined under *Government Auditing Standards* and the AICPA standards for attestation engagements.

As specified by CFPB, our audit objectives were to review and assess CFPB’s (1) fiscal year 2020 budget process, relative to its policies and procedures established over budget formulation, execution, and



monitoring; and (2) corrective actions taken to resolve the findings and recommendations included in CFPB's 2019 *Independent Audit of Selected Operations and Budget*, which was performed by KPMG.

As a result of the work performed to meet our audit objectives and as our report further describes in the *Findings and Recommendations* section, we identified the following finding in the budget process:

A. Improvements needed over timely deobligation of stale obligations.

Our recommendations to CFPB for the budget process are for the:

- The Office of the Chief Financial Officer, in coordination with the Office of Procurement, to continue its review of stale obligations and establish expected timeframes for de-obligation of obligations once a determination has been made.

As a result of our procedures, we closed the control deficiency reported in our prior year audit related to monitoring of employee expense reimbursement submissions for professional licenses, certifications, and memberships.

KPMG cautions that projecting the results of our report to future periods is subject to the risks that controls may become inadequate because of changes in conditions, or because compliance with controls may deteriorate.

This report is intended solely for the information and use of the Consumer Financial Protection Bureau, and is not intended to be, and should not be, used by anyone other than these specified parties.

Sincerely,

KPMG LLP

BACKGROUND

The Bureau of Consumer Financial Protection (CFPB) was established on July 21, 2010 under Title X of the Dodd-Frank Wall Street Reform and Consumer Protection Act Public Law No. 111-203 (Dodd-Frank Act) as an independent bureau within the Federal Reserve System. The Bureau is an Executive agency, as defined in Section 105 of Title 5, United States Code, with a mission to regulate the offering and provision of consumer financial products or services under the Federal consumer financial laws and to educate and empower consumers to make better informed financial decisions. The CFPB has a diverse mandate, including roles that were previously covered by seven different agencies responsible for rulemaking, supervision, and enforcement relating to consumer financial protection. The agencies which previously administered statutes transferred to the CFPB are the Board of Governors of the Federal Reserve System; the Office of the Comptroller of the Currency; the Office of Thrift Supervision; the Federal Deposit Insurance Corporation; the National Credit Union Administration; the Federal Trade Commission, and the Department of Housing and Urban Development.

To accomplish its mission, the CFPB developed a workforce with a broad and diverse depth of public and private industry experience that is spread across the country, with its headquarters in Washington, D.C. and regional offices in New York, Chicago, San Francisco, and Atlanta. The CFPB is organized into five primary divisions:

- *Consumer Education and External Affairs* – provides, through a variety of initiatives and methods, including offices on specific populations, information to consumers to allow them to make financial decisions that are best for them. Additionally, this division hears directly from consumers about challenges they face in the marketplace through their complaints, questions, and feedback. The division also manages the Bureau’s relationships with external stakeholders and ensures that the Bureau maintains robust dialogue with interested stakeholders to promote understanding, transparency, and accountability;
- *Supervision, Enforcement, and Fair Lending* – helps ensure compliance with Federal consumer financial laws by supervising market participants and bringing enforcement actions when appropriate;
- *Research, Markets, and Regulations* – conducts research to understand consumer financial markets and consumer behavior, evaluates whether there is a need for regulation, and determines the costs and benefits of potential or existing regulations;
- *Legal Division* – helps ensure the Bureau’s compliance with all applicable laws and provides advice to the Director and the Bureau’s divisions; and
- *Operations* – builds and sustains the CFPB’s operational infrastructure to support the entire organization.

OBJECTIVES, SCOPE, AND METHODOLOGY

Objectives and Scope

As specified by the CFPB, the objectives of our performance audit were to evaluate CFPB's:

- Fiscal year 2020 budget process, relative to its policies and procedures established over budget formulation, execution, and monitoring; and
- Corrective actions taken to resolve the findings and recommendations included in CFPB's *2019 Independent Audit of Selected Operations and Budget*.

Methodology and Approach

We conducted our performance audit in accordance with the performance audit standards in *Government Auditing Standards*. In addition to *Government Auditing Standards*, we conducted this performance audit in accordance with Consulting Services Standards established by the American Institute of Certified Public Accountants (AICPA). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and recommendations based on our audit objectives. Our responsibility is to provide findings and recommendations based on the results of our audit. We believe that the evidence obtained provides a reasonable basis for our findings and recommendations based on our audit objectives.

Our methodology consisted of the following four-phased approach:

1. *Project Initiation and Planning* – We met with relevant CFPB personnel to (1) reaffirm CFPB's and our collective understanding of the performance audit objectives and scope, (2) highlight our methodology and approach to meet the audit objectives, (3) request certain information from CFPB needed to perform our audit, and (4) gain an understanding of the status of corrective actions plans related to our prior year findings and recommendations.
2. *Data Gathering* – We interviewed relevant CFPB personnel to obtain an understanding of processes, controls, and available documentation for each audit objective. For each audit objective, we researched leading practices, obtained and reviewed relevant documentation, selected samples for detailed testing and further analysis, when appropriate, and documented the work performed and results of our audit procedures.
3. *Analysis Using Established Criteria* – Our evaluation criteria were developed from a variety of sources, including:

- requirements and technical guidance published by the Office of Management and Budget (OMB) and used by CFPB as leading practices¹ at the time of our audit (e.g., OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, dated July 15, 2016);
 - OMB Circular No. A-123, Appendix D, *Compliance with the Federal Financial Management Improvement Act of 1996*, dated September 20, 2013;
 - OMB Circular No. A-11, *Preparation, Submission, and Execution of the Budget*;
 - United States Government Accountability Office (GAO), *Standards for Internal Control in the Federal Government*, dated September 2014 (GAO Greenbook); and
 - CFPB's policies and procedures relevant to the audit objectives.
4. *Findings and Recommendations* – The results of our audit work were the basis for our audit findings and recommendations. We met with CFPB management to discuss our findings, recommendations, the content of the auditor's report, and steps related to the final reporting process.

The sections below present an overview of each of the audit objectives and the relevant procedures performed with respect to each area.

RESULTS

CFPB's Budget Process

Pursuant to the Dodd-Frank Act ("the Act"), the CFPB is funded principally by transfers from the Federal Reserve System, up to a limit set forth in the Act. In addition, pursuant to the Act, the CFPB is authorized to collect and use, for specified purposes, civil penalties collected from any person or entity in any judicial or administrative action brought under federal consumer financial law.

The CFPB budget process consists of budget formulation (including budget submission and approval), budget execution, and budget monitoring (including reporting). The CFPB and the Federal Reserve have entered into an inter-agency agreement for the continued funding of the operations of the CFPB as set forth in Section 1017(b) of the Act. Under this agreement, the Federal Reserve will transfer funds quarterly to the CFPB based on notification by the Director of the amounts needed. During fiscal years 2020 and 2019, the CFPB's annual transfers from the Board totaled approximately \$537 million and \$468 million, respectively.

¹ While not required to comply with OMB regulations, CFPB uses OMB requirements and guidance as indicators of leading practices.

The annual budget formulation process begins approximately 18 months before the beginning of the fiscal year in which the budget will be executed. This is a collaborative effort between the Office of Chief Financial Officer (OCFO) and CFPB divisions and their offices. To facilitate a standardized and consistent budget formulation process, the OCFO has developed policies and procedures, including templates for gathering relevant data. The program or division is required to support the amounts requested and link to the CFPB goals set by the Director.

The CFPB's Operations Division is responsible for coordinating activities for budget formulation across the Bureau. Working in collaboration with other CFPB divisions, the OCFO has primary responsibility for developing the budget (including staffing estimates) consistent with statutory requirements, performance goals, and CFPB priorities. The CFPB Director has final approval authority over the budget. Once the annual budget is approved by the Director, it is distributed internally, communicated to OMB (but not subject to approval by OMB) and posted on the CFPB website.

To execute its budget, CFPB exercises administrative control of funds through several measures. A financial plan is developed for each division and distributed at the beginning of each fiscal year. Within the fiscal year financial plan, each division is allocated a staffing headcount and personnel funding target as well as non-personnel funding. Divisions are expected to adhere to their financial plan allocations and to work collaboratively with the OCFO to request any additional funding and/or staffing if needed throughout the year. The OCFO has established policies and procedures for the approvals of requisitions and commitments related to CFPB's funds.

To process budgetary transactions and enforce funds controls, CFPB has entered into an interagency agreement for accounting services with the U.S. Department of the Treasury's Bureau of the Fiscal Service. Accounting services provided to CFPB include recording financial transactions, such as budget authority, allocations, collections, accounts receivable, commitments, obligations, accruals, accounts payable, disbursements, and journal entries. The Bureau of the Fiscal Service's automated accounting systems provide the budgeting and funds control at various organizational and spending levels, which are established at the request of the customer agency. To complement these funds controls, the CFPB has established additional monitoring controls, such as monthly budget execution summary reports, and the mid-year budget review. In addition, the OCFO has established policies and procedures to perform a quarterly accrual analysis of individual obligations to determine if goods and services were received. This review is further supplemented with a semi-annual review of open obligations to confirm the validity of the open status.

The CFPB has established and maintains an operating reserve to protect its ability to carry out its authority and help ensure the stability of its mission, programs, and ongoing operations in the event of unanticipated and unbudgeted one-time funding needs. This reserve is intended to provide a source of funds internal to the CFPB for unexpected situations, such as sudden increases in expense, one-time unbudgeted expenses, unanticipated delays in funding, and uninsured losses. The CFPB's Operating Reserve Policy has been implemented in concert with its other governance and financial policies and is intended to support the goals and strategies contained in those related policies and in strategic and operational plans. Additionally, maintenance of such a reserve is expected to minimize or eliminate the need to request fund transfers from the Board of Governors of the Federal Reserve (Board) outside the predetermined schedule, which could place an undue burden on the Federal Reserve System.

Our methodology and approach for evaluating the budget formulation, execution and monitoring process included the following procedures:

- Interviewing relevant CFPB budget personnel within the individual division/program offices and the OCFO regarding formulation, execution, and monitoring;
- Reviewing the policies and procedures for budget formulation, execution, and monitoring;
- Obtaining a further understanding of the budget formulation, execution and monitoring process through discussions with management of the OCFO and select CFPB divisions;
- Reviewing documents used to support the budget formulation process;
- Comparing the CFPB budget formulation, execution, and monitoring process to the applicable requirements and guidance in OMB Circular A-11 as an indicator of leading practices;
- Reviewing documents to support the fact that the fiscal year 2020 budget was discussed with the program offices, was reviewed and approved by CFPB's Director, and was widely communicated throughout the organization;
- Obtaining an understanding of the budget execution and monitoring process through discussions with OCFO management and select CFPB offices;
- Reviewing CFPB's support for its mid-year budget review;
- Selecting a sample of budgetary transactions and obtaining supporting documentation;
- Reviewing the complementary user entity controls noted in the Bureau of the Fiscal Service Organization Control report under Statement on Standards for Attestation (SSAE) No. 18: *Report on the Bureau of the Fiscal Service Administrative Resource Center's Description of its Financial Management Services and the Suitability of the Design and Operating Effectiveness of its Controls for*

the Period July 1, 2019 to June 30, 2020 (Fiscal Service SSAE 18 report) issued by KPMG, which performed this SSAE No. 18 attestation for the Bureau of the Fiscal Service; and

- Reviewing the CFPB analysis of the Fiscal Service SSAE 18 report.

Refer to **Finding A** in the *Finding and Recommendations* section of this report and *Corrective Actions Taken to Resolve the FY 2019 Audit Report Findings and Recommendations* section of this report for our findings and recommendations related to our budget process audit objective.

Corrective Actions Taken to Resolve the FY 2019 Audit Report Findings and Recommendations

CFPB developed corrective action plans to address the prior year findings included in the *2019 Independent Audit of Operations and Budget*² report. Our methodology and approach for evaluating the corrective actions process included the following procedures:

- Reviewed the findings and related recommendations included in the *2019 Independent Audit of Operations and Budget*, which were defined as either a risk of deficiency or non-compliance or a deficiency in internal control;
- Obtained and reviewed the corrective action plans (CAP) developed by CFPB for the findings mentioned above; and
- Reviewed documentation supporting the CFPB actions specified in the CAP and how the actions taken address the prior year findings.

² *2019 Independent Audit of Selected Operations and Budgets*, KPMG, March 26, 2021

The table below captures the status of the prior year findings based on the results of our 2020 performance audit procedures:

2019 Findings	2019 Finding Type	2020 Status
Controls over the monitoring and review of stale obligations	Control Deficiency	<p style="text-align: center;">REISSUED</p> <p>Based on the result of our procedures performed in the current year the finding was updated and reissued. Refer to Finding A in the <i>Findings and Recommendations</i> section of this report.</p>
Monitoring of Employee Expense Reimbursement Submissions	Control Deficiency	<p style="text-align: center;">CLOSED</p> <p>CFPB implemented updated policies and procedures for the monitoring of employee expense reimbursement submissions to address the matters noted in our prior year report. In addition, management provided training to Office of Human Capital staff regarding the implementation of these updated policies and procedures. Accordingly, we determined the finding to be closed.</p>

Findings and Recommendations

Our 2020 performance audit identified one internal control deficiency³ finding, which is presented below. We discussed the results of the performance audit with CFPB’s CFO, the audit focus area leads, and the Contracting Officer Representative (COR) for the audit contract.

A. Improvements needed over timely deobligation of stale obligations⁴

Background and Condition:

In our previous audit report⁵, we noted CFPB was in process of implementing corrective actions to address the stale obligations identified in our report. Based on our procedures performed, we noted that open obligations older than 2 years as of September 30, for the following fiscal years were:

Fiscal Year	Balance in Millions
2020	\$3.4
2019	\$11.1
2018	\$34.0

The \$3.4 million in FY 2020 represented 0.6 percent of the budgetary resources. We noted that of our sample of 15 open obligations selected for testing, management had identified 5 obligations for deobligation through its review process but had not yet deobligated the funding prior to the end of the fiscal year. These sample items were deobligated after the end of the fiscal year. In addition, we identified 1 sample item in which management was unable to provide adequate documentation supporting the open status for the outstanding obligation balance from August 2018.

³ *Government Auditing Standards*, 2018 Revision – Paragraph 8.53. “A deficiency in internal control exists when the design, implementation, or operation of a control does not allow management or personnel to achieve control objectives and address related risks. A deficiency in design exists when a necessary control is missing or is not properly designed so that even if the control operates as designed, the control objective would not be met. A deficiency in implementation exists when a control is properly designed but not implemented correctly in the internal control system. A deficiency in operating effectiveness exists when a properly designed control does not operate as designed or the person performing the control does not have the necessary competence or authority to perform the control effectively.”

⁴ Stale obligations were those whose contract period of performance was expired, and no expenses had been incurred.

⁵ *2019 Independent Audit of Selected Operations and Budgets*, KPMG, March 26, 2021

Criteria:

- COO-CFP-006, Policy for Recording Commitments and Obligations
- COO-PROC-02-2018, Contract Closeout
- GAO *Standards for Internal Control in the Federal Government*, Principle 16
- For leading practices, the Office of Management and Budget Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*

Cause and Effect:

In FY 2020 CFPB had been in process of reviewing its stale obligation balances, and as of September 30 of that year had not yet finished deobligating those items identified in its review. Stale obligations potentially prevent the release of additional funds for use by CFPB for other operational requirements and offer the opportunity for improper payments to be made against obligations that should have been closed out.

Recommendations:

To continue to improve controls over its budget execution function with respect to obligations, we recommend:

1. The Office of the Chief Financial Officer, in coordination with the Office of Procurement, continue its review of stale obligations and establish expected timeframes for de-obligation of obligations once a determination has been made.

Appendix A – CFPB’s Management Response

Management Responses

We provided a draft of this report to CFPB management for review and comment. CFPB’s responses to our findings and recommendations are included in a letter from CFPB’s Chief Financial Officer dated August 12, 2022 (refer to Appendix A). CFPB’s responses were not subjected to the auditing procedures applied in the performance audit objectives relative to CFPB; accordingly, we expressed no opinion on these responses.



Consumer Financial Protection Bureau
1700 G Street NW
Washington, D.C. 20552

August 12, 2022

Mr. Corbin Neiberline
KPMG, L.L.P.
1801 K Street, NW
Suite 12000
Washington, DC 20006

Dear Mr. Neiberline,

Thank you for the opportunity to review and comment on KPMG, L.L.P.'s report "*Consumer Financial Protection Bureau's Independent Audit of Selected Operations and Budget*," for Fiscal Year 2020 dated August 15, 2022. We have reviewed the audit report and concur with the recommendation contained therein. As noted in the report, the CFPB has fully remediated the finding from the 2019 Independent Audit conducted by your firm related to our Professional Licenses, Certifications, and Memberships Human Capital Benefit Program. Additionally, we note the finding from FY19 related to Untimely Deobligation of Stale Obligations has been closed and re-issued for FY20, with updated conditions and a recommendation.

We acknowledge the hard work of CFPB staff who remediated the 2019 finding and who have already completed a significant amount of work towards remediating the remaining finding. My colleagues are already preparing to implement the proposed recommendation from the budget audit focus area. The comments on the recommendation in this letter provide additional detail on planned actions to enhance the controls in the audit focus area.

Thank you again for your review.

Sincerely,

A handwritten signature in black ink that reads "Dana James". The signature is written in a cursive style.

Dana James
Acting Chief Financial Officer

A. Auditor's Recommendation Related to CFPB's Controls over the monitoring and review of stale obligations

Recommendations: The Auditor recommends that CFPB:

1. *The Office of the Chief Financial Officer, in coordination with the Office of Procurement, continue its review of stale obligations and establish expected timeframes for de-obligation of obligations once a determination has been made.*

CFPB Response:

The CFPB agrees with the condition noted in the report and the recommendation above. The Office of the Chief Financial Officer and the Office of Procurement created a tiger team to meet regularly on this topic to better monitor stale obligations, work with program offices to facilitate better responsiveness to de-obligation inquiries and collaborate on additional efforts to remediate the previous finding which resulted in executing approximately \$10 million in de-obligations during FY 2020. The CFPB plans the following actions to remediate the current finding:

1. The CFPB will continue to work with program offices and CORs throughout the Bureau to review open obligations and de-obligate balances on a timely basis as applicable.
2. The CFPB will continue to evaluate existing processes and enhance those processes to ensure the controls are effective.
3. The CFPB will also continue to evaluate the need for, and implement as necessary, additional training.