Sen. Elizabeth Warren isn’t very happy with financial regulators.

In a Wednesday speech assessing the state of financial oversight, the Massachusetts Democrat dished out harsh criticism for the Justice Department, the Securities and Exchange Commission, and the Federal Reserve for not being tougher on big financial institutions in the years since the 2008 crisis.

She pointed to bank scandals—such as probes into currency-market and interest-rate manipulation—that have surfaced since the crisis as evidence regulators aren’t being tough enough. “The bottom line is that the culture of cheating on Wall Street didn’t stop with the 2008 crash,” she said in prepared conference remarks.

Ms. Warren knocked the Justice Department and the SEC for not pursuing harsher penalties against financial firms alleged to have broken the law. She criticized the Justice Department for relying heavily on deals that defer or avoid prosecution for such firms. She called for, among other things, Congress to change the legal standard to require “some meaningful judicial review of whether these agreements are appropriate.”
The Justice Department has defended the use of such agreements, saying they are an effective way of forcing institutions to make changes and submit to monitoring. Officials also point out that banks can be prosecuted later if they don’t abide by the terms of a deferred-prosecution agreement.

And she claimed the SEC “is even worse,” declining to use punishments at its disposal, such as revoking a firm’s special status as a “well-known seasoned issuer,” which allows large companies to quickly issue stocks or bonds without an SEC review.

“It’s time to stop recidivism in financial crimes and to end the slap-on-the-wrist culture that exists at the Justice Department and the SEC,” Ms. Warren said.

SEC Chairman Mary Jo White has defended her agency’s waiver process as “thorough, rigorous and principled.” She denied the agency has turned a blind eye to recidivist behavior.

As for the Fed, Ms. Warren revived a critique she has made in the past that the board of governors defers too much of its enforcement decision-making to staff. The Fed board has stepped up its meeting and votes on such matters since Ms. Warren first raised her concerns.

The Fed board, for instance, last year began formally voting on which banks pass and fail the annual “stress test.” Ms. Warren said the central bank should institute a requirement that the board of governors votes on all major enforcement and supervisory decisions.

Ms. Warren also said each Fed governor should have his or her own staff “so they can come to independent conclusions on important matters.” Currently, Fed board staff largely serve the Fed chairman.

Ms. Warren is a member of the Senate Banking Committee, which has oversight over financial regulators. The former Harvard law professor previously served as the chairman of the congressionally-appointed watchdog panel for the 2008 Troubled Asset Relief Program and, after Dodd-Frank became law, as a special adviser to the president charged with setting up the Consumer Financial Protection Bureau, which she pushed Congress to create.

She made her remarks at a conference hosted by the Levy Institute, a non-partisan, not-for-profit economics think tank attached to Bard College.

The only regulator Ms. Warren praised was the consumer watchdog she helped create, the CFPB. While this “little consumer agency” has been on the beat for just four years, its success can be measured, she said, by the $5 billion it has returned directly to consumers from the financial firms that cheated them.

In addition to criticism, Ms. Warren also offered a slew of proposals she thinks Congress should pursue to strengthen financial regulation and protections for consumers, including an expansion of CFPB authority to cover auto loans. The 2010 Dodd-Frank law specifically carved auto dealers out from CFPB oversight, and Ms. Warren said the exemption has led to loose underwriting standards and predatory lending practices in the auto-lending sector.

She also suggested several tax proposals, including a new tax on financial transactions and closing existing tax breaks for debt-funding and executive bonuses.

She said Congress needs to do more to end the problem of “too big to fail,” or financial firms so large and complex that the government would be forced to rescue them should they run into serious trouble. She said Congress needs to break up the biggest banks, either by capping their size or reinstating a version of the Depression-era Glass-Steagall Act separating plain-vanilla banking activities from riskier investment-banking bets.

Ms. Warren has previously introduced legislation to do the latter.
She also proposed that Congress take additional steps to curtail the Fed’s emergency lending powers. Dodd-Frank eliminated the Fed’s ability to provide emergency support to individual financial firms, as it did on a large-scale basis during the 2008 financial crisis. The Fed has issued a rule implementing that change but Ms. Warren and other lawmakers have complained it falls short of what Congress wanted. “The Fed’s proposed rule on emergency lending was so weak that it might as well not exist,” she said.

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