

July 8, 2008

The Honorable Christopher Cox
Chairman
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Dear Chairman Cox:

I am pleased to transmit to you a summary of the Public Company Accounting Oversight Board's most recent performance review, conducted by the Board's Office of Internal Oversight and Performance Assurance. The Board formed IOPA to provide the Board, the Securities and Exchange Commission, and others assurance that the PCAOB is achieving the objectives of Title I of the Sarbanes-Oxley Act in an effective manner. IOPA conducts its reviews in conformance with Government Auditing Standards issued by the Comptroller General of the United States.

This report summary discusses recruitment and retention activities at the Board as of 2005 through 2007. Given the strategic importance of attracting, retaining and developing highly qualified individuals as well as the responsibility to exercise careful stewardship over the Board's resources, IOPA conducted the review focusing on staffing goals for the PCAOB and the structure and staffing of HR.

The Board intends to publish the attached summary on the PCAOB's Web site on or about July 16, 2008. You and your staff should feel free to contact me or the Director of IOPA, Peter Schleck (202-207-9115), if you have any questions or would like any additional information about the review.

Sincerely,



Mark Olson
Chairman

cc: Paul S. Atkins, Commissioner
Kathleen L. Casey, Commissioner

PERFORMANCE REVIEW

THE PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD'S **RECRUITMENT AND RETENTION** **(IOPA-2008-001)**

INTERNAL OVERSIGHT AND PERFORMANCE ASSURANCE **July 8, 2008**

Objective

As articulated in the March 2008 Public Company Accounting Oversight Board (PCAOB) Strategic Plan, one of the strategic goals of the PCAOB is to operate in a manner that recognizes its public mission and responsibility to exercise careful stewardship over its resources. The Board outlined a number of objectives in order to achieve this goal. Among them is to continue to attract, retain and develop highly qualified individuals. In addition, the Board identified a number of supporting initiatives that highlight the key tools to be used to achieve this objective including: assessing the effectiveness of the current recruitment strategies and making changes to the model, as necessary, to meet hiring objectives; evaluating the PCAOB's compensation and benefits structure to ensure that the organization continues to be an attractive career option for credentialed professionals; and developing a comprehensive staff retention strategy.

As part of Internal Oversight and Performance Assurance's (IOPA) 2007 risk assessment, which is used to establish an analytical basis on which to develop and prioritize a proposed schedule of performance reviews, IOPA applied each of the 64 actions in the PCAOB's April 2007 draft Strategic Plan to its 2007-2008 risk assessment methodology. The recruitment and retention area was identified as high risk because personnel is the primary cost driver at PCAOB, and attracting, retaining, and developing highly qualified staff in an effective and efficient manner is critical to the organization's success.

Given the strategic importance of these issues, IOPA conducted a survey to determine whether the PCAOB is meeting its recruitment and retention goals. As part of this survey IOPA obtained information on the strategies Human Resources (HR) employed for recruiting and retaining accountants, evaluated the effectiveness of those strategies, and compared them to good business practices and strategies used by other

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relevant organizations. In addition, we evaluated the initiatives taken by management in response to our 2005 internal control review of the HR function.^{1/} Based upon the results of our survey, we focused our review on staffing goals for the PCAOB and the structure and staffing of HR. This report contains the results of both the survey and review phases of this effort.^{2/}

Background

Section 101 of the Sarbanes-Oxley Act of 2002 established the Board and provided the basic framework for human resource considerations at the PCAOB. Specifically, the Board was granted the power to:

...appoint such employees, accountants, attorneys, and other agents as may be necessary or appropriate, and to determine their qualifications, define their duties, and fix their salaries or other compensation (at a level that is comparable to private sector self-regulatory, accounting, technical, supervisory, or other staff or management positions)...

The statutory language in this instance helps to convey the conceptual design of the PCAOB as a unique blend of organizational cultures that pursues a public interest mission while maintaining the characteristics of a private sector entity. Implicit in this language is the necessity for the PCAOB to successfully compete in the marketplace for well-qualified professional staff.

In 2005, IOPA completed an internal control review of the PCAOB's HR activities. In that review, we found that recruiting – and retaining – the cadre of well-qualified professional and support staff needed to meet Sarbanes-Oxley requirements and the Board's strategic objectives was among the most critical challenges for the organization. This was especially the case for the Inspections staff. We noted that in order for the

^{1/} *Internal Control Review of the Public Company Accounting Oversight Board's Human Resources Function* (IOPA-2005-001), May 26, 2005.

^{2/} This is a public summary of the report. The full report, prepared in accordance with Government Auditing Standards, has been issued to the Board. The full report includes a detailed discussion of the review objective, scope, and methodology.

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PCAOB to reach its goal of hiring a certain number of inspectors by the end of 2005, the rate of hiring would need to increase substantially.

Individuals with solid accounting and finance skills and experience are in great demand but short supply. According to the 2007 Employment Dynamics and Growth Expectations report which surveyed 1,000 hiring managers and over 900 employees, professionals in the accounting industry rank among the top ten difficult positions to fill. More than 50 percent of the hiring managers surveyed attribute their difficulties in recruiting professional and technical staff-level workers to a shortage of qualified workers.

The PCAOB faces several challenges to its recruitment and retention goals, including: a tough market; internally determined applicant requirements for highly-qualified professionals; escalating market compensation; and a recruiting firewall, which restricts recruiting at firms under inspection by the PCAOB.

Results of Review

As part of PCAOB’s annual budgeting process, HR, in cooperation with Division and Office Directors and with the approval of the Board, establishes staffing goals for the organization. For the past three budget years, those goals, along with actual year-end headcounts, have been as follows:

Table 1 – PCAOB Staffing Goals

Year	PCAOB Goal	PCAOB Actual	Inspections Goal ³	Inspections Actual
2005	450	424	220	202
2006	537	462	283	232
2007	519	476	253	256

As can be inferred from the data in Table 1, the challenges noted in the previous section continue to make attainment of the PCAOB’s staffing goals difficult. While the PCAOB achieved its 2007 hiring goal for inspectors, that goal was lower than in previous years. The goal was lowered, in part, to reflect the continuing tight employment market for experienced accountants. For the PCAOB as a whole, hiring continued to fall somewhat short of budget goals.

^{3/} These figures include headcount for the Office of Registration.

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To its credit, the PCAOB has been proactive, since our 2005 report, in establishing a number of recruiting initiatives intended to address staffing challenges. For example, it introduced a program aimed at retired audit partners; another targeting specific geographic markets; and a third intended to enhance the employee referral program. Moreover, HR significantly increased its recruiting staff between 2005 and 2007.^{4/} The HR Director believes, and was able to demonstrate to us, that these measures have met with recognizable success. In addition, we noted that since our last review the HR Director has continued to “fine tune” the total rewards programs in order to encourage employees to view PCAOB as a long-term career choice.

As part of its strategic planning process, the Board established staffing goals for 2008 to 2013 that represent relatively modest increases, beginning with 507 total employees by the end of 2008, increasing to 536 by the end of the five-year period. The HR Director told us that in light of PCAOB staffing approaching a more “steady state,” and in consideration of recruiting experience to date, she plans to re-evaluate HR staffing and how the HR staff can continue to best serve the organization. Based on our review, IOPA concluded that the Director’s intentions in this regard are appropriate.

In our judgment, HR staffing should be based on objective analyses that are consistent with the Board’s strategic plan and that can withstand scrutiny by the Securities and Exchange Commission and other stakeholders. To the extent that appropriate industry or government comparisons can be made, benchmarking could be an important component of such analyses. In the body of this report, we note the existence of a number of industry benchmarks for HR staffing among a range of private, public, and not-for-profit organizations. We recommended that the Director consider such benchmarks in her analyses of the PCAOB’s requirements for HR support.

In responding to a draft of this report, the Interim CAO and the Director of HR provided comments indicating that hiring had been a key strategic objective of the PCAOB over the last five years, and that going forward, the PCAOB’s hiring needs would be even more specialized and in large part will focus on replacing departing employees. They generally concurred with the recommendation and stated that they would review benchmark data, as they have in the past, as they work with the Board and other key stakeholders to determine the best way for HR to contribute to the objectives outlined in the PCAOB strategic plan.

^{4/} The HR recruiting staff reached a high point in 2006 and then began to decrease.