

November 21, 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.

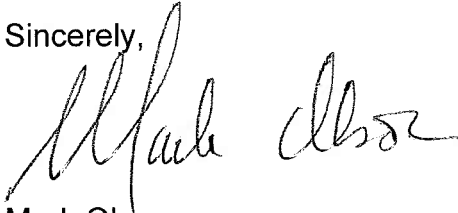
IOPA conducted the review to determine whether the Public Company Accounting Oversight Board's (PCAOB) travel expenditures were consistent with Board-approved policy and good business practices. The review objective was consistent with the Board's strategic plan, which specifically states that the PCAOB should exercise careful stewardship over its resources and develop a framework for identifying and monitoring operational and reputation risks.

This report summary discusses aspects of the PCAOB's travel policy and activities for the period January 2005 through September 2007. It should be noted that in January 2008, the PCAOB revised the travel and expense policy to provide more specificity and has implemented throughout the year additional controls to allow for managers and finance staff to monitor and document compliance with the 2008 policy. Extensive educational and training efforts have taken place and we are in the process of providing additional guidance in response to IOPA's report.

The Board welcomed this review. I believe that many of IOPA's comments were addressed by policy changes and by related compliance initiatives that are underway. In response to the IOPA review, I initiated new actions intended to further strengthen processes and controls over PCAOB travel. These include elimination of the provision allowing the PCAOB to pay for business or first class upgrades for flights originating and ending in North America, and asking the CFO and Ethics Officer to report on whether

the revised Policy and process improvements underway respond to the risks identified in the IOPA report and whether additional controls are needed. The PCAOB is committed to continuous process improvement in travel and all business processes.

The Board intends to publish the attached summary on the PCAOB's Web site on or about December 4, 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

Enclosure

cc: The Honorable Kathleen L. Casey  
The Honorable Elisse B. Walter  
The Honorable Luis A. Aguilar  
The Honorable Troy A. Paredes

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## PERFORMANCE REVIEW

### THE PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD'S TRAVEL (IOPA-2008-002)

#### INTERNAL OVERSIGHT AND PERFORMANCE ASSURANCE November 21, 2008

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#### Objective and Scope

The Office of Internal Oversight and Performance Assurance (IOPA) conducted this review<sup>1/</sup> to determine whether the Public Company Accounting Oversight Board's (PCAOB) travel expenditures were consistent with Board-approved policy and good business practices.<sup>2/</sup> The review objective was consistent with the Board's strategic plan, which articulates a core value recognizing that the PCAOB is primarily supported by fees from public companies and understands its responsibility to manage resources effectively and efficiently. The strategic plan specifically acknowledges that the PCAOB should exercise careful stewardship over its resources and develop a framework for identifying and monitoring operational and reputation risks.

The scope of our review included employee expenses submitted for reimbursement between January 1, 2005 and September 30, 2007. In addition to travel-specific reimbursements, we also included business meals and certain other miscellaneous reimbursements in our scope. We included these categories because we noted that some of the related expenses were incurred during official travel.

A previous IOPA review (*Internal Control Review of the Public Company Accounting Oversight Board's Finance Function*, IOPA-2005-002, October 2005)

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<sup>1/</sup> 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.

<sup>2/</sup> For purposes of this review, the term "good business practices" includes comparisons to travel policies used by most Federal government agencies and two regulatory entities.

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included an examination of travel expenses submitted for reimbursement between April 2004 and December 2004.

### Background

For the 33 months covered by our review, total travel costs were \$16.9 million, consisting of the categories illustrated in Table 1.

Table 1 – PCAOB Travel Costs by Category

Expense Type	2005	2006	2007 (1/1-9/30)	Total
Lodging	2,026,436	2,620,955	2,260,637	6,908,028
Airfare	1,837,543	2,137,496	1,861,119	5,836,158
Meals	507,332	600,703	468,085	1,576,120
Other <sup>3/</sup>	854,160	959,831	726,634	2,540,625
Total	\$5,225,471	\$6,318,985	\$5,316,475	\$16,860,931

It should be noted that the PCAOB grew significantly over the period covered in our review, from 258 regular employees at the beginning of 2005 to 462 at the end of September 2007.

### Authorities and Policy

Title 1, Section 101 of the Sarbanes-Oxley Act of 2002 established the powers of the Board, and specifically authorized the Board to

...do any and all other acts and things necessary, appropriate, or incidental to the conduct of its operations and the exercise of its obligations, rights, and powers imposed or granted by this title.

Article VI of the Bylaws of the PCAOB established that the Chief Executive Officer (the Board Chair) has responsibility and authority for management and administration, subject to the general policies of the Board.

Travel-related expenses within the scope of this review were subject to the Board's April 21, 2004, Expense Reimbursement Policy (2004 Policy). That policy

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<sup>3/</sup> This category includes ground transportation, rail, phone, course registration, etc.

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established a number of procedural requirements and guidelines intended to support the Board's overarching principles that staff should be reimbursed only for actual expenses necessary to the Board's mission; and, that staff should avoid meals and expenses that could appear to be lavish or insufficiently sensitive to the source of the Board's funding. Specific policy provisions included a statement that meal expenses "normally" should not exceed \$60 per day. The policy also included guidelines for air, rail, and ground transportation, and for accommodations. Overall management responsibility for the expenditure of funds was vested with the Chief Administrative Officer<sup>4/</sup> (CAO) and the Chief Financial Officer (CFO).

The 2004 policy required staff to book travel through the PCAOB's Travel Desk in the Office of Administration and to use Board-approved credit cards for all travel and business meals. Generally, staff members report expenses on a monthly basis using a module of the Board's enterprise resource management system.<sup>5/</sup> Hard copies of expense reports, along with copies of credit card statements and receipts, are then submitted to the Finance office for review and payment.

A revised Travel and Business Expense Reimbursement Policy (2008 Policy) was issued in January 2008. Travel costs IOPA examined during this review were not subject to the 2008 Policy; however, this report references policy changes relevant to our review findings.

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<sup>4/</sup> At the time of this review, the PCAOB's Chief of Staff was also serving as the Interim CAO. The current Chief of Staff was appointed interim CAO effective November 2006. The current CFO joined the PCAOB in April 2008.

<sup>5/</sup> PeopleSoft.

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### Benchmark Practices

The PCAOB was established by statute as a private, not-for-profit corporation. As such, the PCAOB is not subject to the Federal Travel Regulation (FTR),<sup>6/</sup> which provides policy and procedures for government employees on official travel. For comparative purposes, however, and in recognition of the PCAOB's public interest mission, this report contains some references to government travel policy provisions.

IOPA also sought to explore and benchmark practices employed by other entities that may be analogous to the PCAOB. As part of our research, we obtained and reviewed the travel policies of:

- A non-governmental regulator, and
- An independent entity of the government.

Like the PCAOB, neither of these benchmarked organizations was subject to the FTR.

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<sup>6/</sup> The FTR is contained in 41 Code of Federal Regulations, Chapters 300 through 304.

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### **Results in Brief**

Based on our analysis of data for the period of review and a more detailed examination of selected expense reports, IOPA concluded that expenses claimed by employees and reimbursed by the PCAOB were generally consistent with the 2004 policy.

However, the review also disclosed three issues that, in our judgment, represent potential operational or reputation risks.

First, IOPA's review indicated that the PCAOB's policy regarding the use of premium-class<sup>7/</sup> air accommodations is more generous than the FTR and the policies of the two other regulatory organizations we used as benchmarks. PCAOB allows upgrade to the next available class above coach for domestic flights crossing three time zones (e.g., Eastern to Pacific) or for international travel with combined flight times of 5 hours or more. None of the other policies we benchmarked allowed for domestic upgrades without special circumstances. One of the two regulators allowed business class for international flights. The other regulator and the FTR generally required flight times of 10 and 14 hours, respectively, before allowing upgrades above coach class.

Secondly, based on a detailed examination of expense reports submitted for reimbursement in August 2007, we noted a number of instances in which travelers appeared to have been reimbursed for meals in excess of \$60 per day without an apparent reason why the exception was allowed. Most of these exceptions were for small dollar amounts and occurred in connection with "group" meals in which one PCAOB employee paid the restaurant charge for two or more travelers eating together. This practice is no longer permitted under the 2008 policy. As IOPA noted in 2005, however, enhancements to the PCAOB's automated expense reimbursement system that identify charges over the meal allowance or other unusual charges would also help reduce the likelihood of undetected exceptions. According to the Controller, such enhancements are to be implemented in the near future.

Finally, documentation we reviewed regarding business and office meals did not always establish that policy criteria for such meals had been satisfied. We also found that there was some confusion between business meals and office meals. Business and office meals represent a small fraction of the total expenditures we reviewed. IOPA recommended that additional policy clarification would help employees better

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<sup>7/</sup> For purposes of this report, "premium class" refers to any class of accommodations above coach class.

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understand the differences between the two categories, when such meals are appropriate and better document claims for reimbursement.

IOPA made recommendations regarding each of these issues.

The Chairman issued a memorandum on November 17, 2008, which indicated that he had taken the following actions:

1. Amended the 2008 travel policy such that the Board will not pay for premium-class air travel for flights originating and ending in North America.
2. Asked the CFO and Ethics Office to report on whether the 2008 policy (which replaced the 2004 policy that was the subject of IOPA's review) and process improvements underway respond to the risks identified in the IOPA report and whether additional controls are needed and to comment on whether the 2008 policy lends itself to effective control and monitoring.
3. Asked the CFO and Ethics Office to identify appropriate benchmarks for the PCAOB's travel and expense policy and address other travel-related issues they deem appropriate.

In addition, the Interim CAO provided a more detailed response which, as summarized by the Interim CAO:

1. Indicated that the PCAOB's new travel reservation system would be able to track upgraded airfare tickets.
2. Agreed to implement planned enhancements to the expense reporting system such that daily meal expenses are aggregated and exceptions noted.
3. Agreed to provide additional guidance to employees regarding business and office meals.