

May 5, 2009

The Honorable Mary L. Schapiro
Chairman
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Dear Chairman Schapiro:

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 succession planning activities at the Board as of February 2009. As articulated in PCAOB's Strategic Plan, changes in leadership, both within and outside the PCAOB, could affect the PCAOB's programs and operations. As the PCAOB matures, it is inevitable that there will be turnover of PCAOB senior staff and Board members. IOPA conducted the review to determine whether the PCAOB is considering succession planning consistent with good business practices.

The Board intends to publish the attached summary on the PCAOB's Web site on or about May 12, 2009. 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 W. Olson
Chairman

Enclosure

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

PERFORMANCE REVIEW

THE PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD'S SUCCESSION PLANNING (IOPA-2009-001)

INTERNAL OVERSIGHT AND PERFORMANCE ASSURANCE May 5, 2009

Objective

One of the strategic goals articulated in the Public Company Accounting Oversight Board's (PCAOB) 2008 – 2013 Strategic Plan is to operate in a manner that recognizes the organization's public mission and responsibility to exercise careful stewardship over its resources. The Board outlined a number of objectives intended to help achieve this goal, including continuing to attract, retain and develop highly qualified individuals. One of the supporting initiatives is the development of succession plans for key positions.

The Office of Internal Oversight and Performance Assurance (IOPA) conducted this review to determine whether the PCAOB is considering succession planning consistent with good business practices.^{1/} The review objective was identified in IOPA's 2008 – 2010 Performance Review Plan, and is one of a series of planned reviews designed to test the PCAOB's success in transitioning to a mature organization with robust controls and processes in place.

^{1/} 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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Authorities

The Sarbanes-Oxley Act of 2002 (the Act) established the PCAOB and, in section 101, provided that Board members are subject to certain term limits.^{2/} As such, this report does not address the process by which Board members are appointed.

The Act also includes reference to the Board's 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).

Article VI of the PCAOB Bylaws outlines the powers of the Chairman and the role of other Board members with regard to appointing and dismissing officers of the Board. The officers specified are the Secretary, Treasurer, General Counsel, Chief Auditor, Chief Administrative Officer (CAO), Director of Registration and Inspections, Director of Enforcement and Investigations, and any others established as officers by the Board.

Background and Best Practices

As commonly defined in professional literature,^{3/} succession planning is a process whereby an organization ensures that employees are recruited and developed to fill each key position. Key positions are those essential to achieve the organization's mission or that require a depth of expertise or specialized knowledge that could make the positions difficult to fill.

Depending on the organization, the purposes for succession planning may also extend well beyond simply filling key positions. For example, succession planning can be a tool

^{2/} The Securities and Exchange Commission developed policies and procedures for nominating and selecting the PCAOB chairman and future board members.

^{3/} IOPA identified best practices in succession planning by reviewing studies, articles, and other documents from nonprofit, federal and state government, academic, Certified Public Accountant professional services, and corporate organizations.

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for helping to achieve workplace diversity, for assessing training needs, or for developing “pools” of talent. At a more strategic level, succession planning is a component in an organization’s efforts to ensure the smooth transition of knowledge from incumbents to successors. The preservation of “institutional knowledge,” is, in fact, a frequently-mentioned concern that highlights the true significance of succession planning. In short, succession planning is a tool that, well used, helps the organization ensure the achievement of its strategic objectives over time.

Public and private sector organizations use a range of approaches when planning for, and managing, succession-related challenges. These approaches span a continuum, from the “replacement” approach, which focuses on identifying particular individuals as possible successors for specific top ranking positions, to the “integrated” succession planning and management approach. Under the integrated approach, succession planning and management is a strategic, systematic effort that works to ensure a suitable supply of potential successors for a variety of leadership and other key positions.

Best management practices have been described as processes, practices, and systems identified in public and private organizations that perform remarkably well and are widely recognized as improving an organization’s performance and efficiency in specific areas. Professional literature indicates that, with regard to succession planning, leading organizations engage in broad, integrated succession planning and management efforts that focus on strengthening both current and future organizational capacity. Guidelines most frequently cited advise that the organization should:

- Obtain top leadership support – Demonstrate the importance of succession planning by actively supporting succession planning efforts within the organization with regular participation by senior leadership, who should also provide for financial and staff resources.
- Link succession planning to organizational strategic objectives – Make succession planning an integral process by linking it with strategic plans that focus on both current and future needs.
- Identify leadership characteristics – Define the specific behaviors, skills, knowledge, and values that leaders need in order for them to succeed now and in the future.

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- Assess talent – Use objective criteria and competencies to assess employees on multiple dimensions and compare them with the successful characteristics that have been determined to be associated with a specific leadership level. Assessment tools such as assessment centers, tests, interviews, and performance appraisals allow an organization to make accurate leadership placement and development decisions.
- Develop talent – Outline development strategies for staff based upon the results of the assessment. Emphasize developmental assignments in addition to formal training to strengthen high-potential employees' skills and broaden their experience.
- Evaluate succession planning – Measure succession plan program success against established objectives. Establish measures and targets for success.

This list is intended as a rough outline only. The guidelines are not organization-specific, and are intended to be tailored according to an entity's specific situation and needs. However, based on our survey of the professional literature, this list may represent an appropriate starting point for an organization beginning to consider succession planning.

Results in Brief

At the time of IOPA's review, the PCAOB was in the process of defining its approach to succession planning and had, in fact, developed a number of initiatives consistent with the best practices discussed in professional literature. Further, informal discussions about succession planning had occurred at the Board level, and the Interim CAO had discussed "single points of failure" with senior managers; that is, situations in which the departure of key staff could result in a vulnerability to the PCAOB's mission or operations.

IOPA discussed the PCAOB's succession planning efforts with the Interim CAO and the Director of Human Resources (HR). They noted that the organization has a number of processes already in place that are consistent with best practices described in professional literature. For example, with regard to:

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- *Top leadership support*, the Chairman meets annually with division directors to discuss staffing, resources, and contingencies for staffing replacements;
- *Identifying leadership characteristics*, the PCAOB's annual performance review process defines eleven Valued Work Behaviors (VWB) that should enable all employees to be successful and six additional ones specifically for supervisors;
- *Assessing talent*, annual and periodic performance reviews and assessment against VWB's provide valuable data;
- *Developing talent*, HR's Promotion Request Form outlines the requirements for recommending individuals for promotion.

The Interim CAO told IOPA that with regard to evaluation she views HR retention activities, including performance reviews and the setting of goals and objectives, as a parallel to the Chairman's efforts to assure that the PCAOB has internal candidates capable of assuming leadership positions as they become available. She also acknowledged, however, that the processes listed have not been formally synthesized together as an approach to succession planning.

We recommended that the CAO work with the Board, the Director of HR, and senior managers to document PCAOB's approach to succession planning. In responding to a draft of this report, the Chief of Staff agreed with IOPA's recommendation.^{4/}

^{4/} During IOPA's review the Chief of Staff also served in the capacity as Interim CAO, and as a result provided management's response. On April 14, 2009 a CAO was appointed.