

February 13, 2017

The Honorable Michael S. Piwowar
Acting Chair
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Dear Chairman Piwowar:

I am pleased to transmit to you a summary of the Public Company Accounting Oversight Board's (PCAOB) most recent performance review, titled Review of the Public Company Accounting Oversight Board's Regional Office Space Utilization. The Board's Office of Internal Oversight and Performance Assurance (IOPA) conducted this performance review. 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 undertook this review to evaluate the Office of Administration's (OA) implementation of the regional office space use framework. IOPA found that the framework, as used in the design of office space in Denver, Chicago, and Charlotte, has been an effective tool for reducing leased space and related costs while still supporting employee engagement. As IOPA's review describes, OA intends to build on its experience and lessons learned in using the framework in future office renovation projects.

The Board intends to publish the attached summary on the PCAOB's Web site on or about February 17, 2017. You and your staff should feel free to contact me or the Director of IOPA, Peter Schleck (202-207-9085), if you have any questions or would like any additional information about the review.

Sincerely,



James R. Doty
Chairman

Enclosure: Review of the Public Company Accounting Oversight Board's
Regional Office Space Utilization (IOPA-2017-001)

cc: The Honorable Kara M. Stein

PERFORMANCE REVIEW

REVIEW OF THE PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD'S REGIONAL OFFICE SPACE UTILIZATION (IOPA-2017-001)

**INTERNAL OVERSIGHT AND PERFORMANCE ASSURANCE
FEBRUARY 9, 2017**

BACKGROUND AND OBJECTIVE

The Public Company Accounting Oversight Board (PCAOB) has offices in 16 U.S. cities. At 10 of these locations, the Board is a party to long-term leases for office space ranging from 8,600 square feet in Charlotte, North Carolina to 149,000 square feet in the Washington, DC headquarters. In addition, the PCAOB maintains six “satellite” locations where it rents space, on an annual basis, from a third-party office provider. The 2016 budget for facilities was \$20 million, including capitalized build-out costs.

In 2014, the Office of Internal Oversight and Performance Assurance (IOPA) conducted a review of facilities management to determine whether the PCAOB had processes in place to assure space requirements were met efficiently and effectively.¹ Based on that review, we concluded that the management of space requirements could be improved. Specifically, IOPA described data gathered by the Division of Registration and Inspections (DRI) demonstrating that less than 50 percent of cubicles and offices at PCAOB field locations were occupied on an average day. IOPA recommended adoption of a data-driven, corporate approach to space utilization that takes into account the PCAOB’s workforce mobility and industry best practices to minimize the organization’s leased-space footprint.

At the time of our previous review, the Office of Administration (OA) was developing, with the assistance of a workplace design consulting firm, a regional office space use

¹ *Review of Facilities Management at the Public Company Accounting Oversight Board*; IOPA-2015-001; January 9, 2015. As of December 31, 2016, management viewed all seven recommendations included in this report as complete.

PERFORMANCE REVIEW

framework (framework). The framework, now complete, is intended to align real estate and business goals by considering employee engagement, productivity, individual space requirements, opportunities for mentoring, and cost. It incorporates office and desk-sharing to reduce overall space requirements, while adding collaborative space such as small meeting rooms, more openness in the workspace, and an emphasis on technology to facilitate effective remote communication. The framework considers the manner in which inspectors work, including their extensive business travel and DRI's adoption of a telework policy that allows most regional inspectors to work remotely two days per week. As such, the framework establishes a goal of reducing leased space in a typical 40-person PCAOB regional office by 30 percent.²

In the past two years, OA and DRI used the framework as the basis for the design and construction of new office space in Charlotte, North Carolina and to renovate existing space in Denver, Colorado. Planned renovations in the Chicago, Illinois office, scheduled to begin in early 2017, will also follow the new framework. IOPA conducted this review to evaluate OA's implementation of the regional office space use framework.^{3,4}

RESULTS IN BRIEF

The framework, as used in the design of office space in Denver, Chicago, and Charlotte, has been an effective tool for reducing leased space and related costs while supporting employee engagement. Denver's renovation allowed for a 26 percent reduction in leased space and the plans for Chicago include a reduction of 19 percent. Combined, the reduced square footage in these offices will save the PCAOB about \$178,000 in the first year following the renovations.⁵

² Management points out that the 30 percent goal is not prescriptive. Each regional office will have specific requirements and considerations that will have practical implications for implementation.

³ IOPA-2015-001 also discussed issues associated with planned renovations to the PCAOB's Washington, DC headquarters. The scope of this review does not include follow-up on those issues. Instead, IOPA will revisit the DC renovation in a separate review.

⁴ 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.

⁵ Base rents for the two leases increase slightly each year.

PERFORMANCE REVIEW

In Charlotte, the PCAOB's office moved from temporary space, rented on a per office basis, to permanent space, leased on a square footage basis, so a direct comparison between old and new square footage is not as meaningful. However, the Charlotte office approximates the framework's goal for a 30 percent footprint reduction from the previous average for PCAOB regional offices. Therefore, management anticipates savings.

Employees we interviewed in Denver and Chicago were candid that office-sharing represents, to them, a sacrifice. At the same time, they understood that PCAOB offices, under previous configurations of one desk or office per person, were often half-empty and thus potentially represented inefficient use of space and unnecessary costs. Employees also articulated that office-sharing, in combination with DRI's implementation of the PCAOB telework policy, represents a reasonable tradeoff. Charlotte employees had already been sharing offices in the temporary space from which they moved. They were less concerned about this issue and were generally positive about the new work environment. Staff at all the offices we visited noted that the new approach to space utilization is consistent with the organization's commitment to good stewardship.

Other features of the framework as deployed so far include additional small team rooms, one-person phone rooms designed for calls requiring privacy, and, in the Charlotte office, more openness to maximize natural light. Charlotte and Denver also feature specific open spaces, with counter tops or seating areas, designated to facilitate collaboration. All of these features are intended to help enable employee engagement and productivity within the smaller leased-space footprint afforded by office-sharing.

While the initial implementation of the framework has been mostly positive, the construction projects in Charlotte and Denver resulted in a number of lessons learned that OA has stated will be applied to the Chicago project, as well as future office build-outs and renovations. Such lessons include the need for:

- Onsite project management to ensure that DRI staff is not burdened with construction-related issues;
- Temporary "swing-space" for staff to work during renovations, thus easing distractions and security concerns;
- Early coordination with the PCAOB's Office of Information Technology (OIT) to ensure that technology requirements are clearly communicated and that issues arising during construction are quickly resolved; and,

PERFORMANCE REVIEW

- Additional consideration of noise abatement, particularly in open areas with cubicles or collaborative space.⁶

Consideration of these issues, along with periodic evaluation of the framework's effectiveness, should help to ensure space utilization that is consistent with the PCAOB's commitment to careful stewardship of its resources.

At management's request, IOPA also visited two satellite locations for the purpose of considering whether conversion to permanent space, using the framework, offers advantages to employees and to the PCAOB. Based on our visits and our conversations with employees at those locations, it is clear that the satellite locations present certain challenges to employee safety and security, engagement, and productivity as compared with the regional offices. In addition, at four of the six satellite locations, costs associated with conversion to permanent space could be recouped within seven years.

IOPA made recommendations to the Chief Administrative Officer (CAO) intended to help ensure the continued success of space utilization initiatives. In her response, the CAO provided commentary on our report indicating her intent to address the recommendations.

⁶ Management pointed out that noise abatement is not just a facilities issue. It is also an issue of management and proper office etiquette.