



January 17, 2023

By Electronic Mail

The Honorable Gary Gensler
The Honorable Hester M. Peirce
The Honorable Caroline A. Crenshaw
The Honorable Mark T. Uyeda
The Honorable Jaime Lizárraga
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Dear Chair Gensler and Commissioners Peirce, Crenshaw, Uyeda, and Lizárraga:

I am pleased to transmit to you a summary of the Public Company Accounting Oversight Board (PCAOB or Board) Office of Internal Oversight and Performance Assurance's (IOPA) performance review No. 21-0A-01. The Board formed IOPA to promote the confidence of Congress, the Securities and Exchange Commission, and the public in the integrity of PCAOB programs and operations. IOPA conducted this review in conformance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.

IOPA undertook this review to evaluate the Board's implementation of the new Human Resource Information System (HRIS), which replaced legacy systems.¹ IOPA's review examined HRIS's project justification, project governance and management, parallel and end-to-end payroll testing, communication and training, system security, and ongoing support.

As the summary sets forth, IOPA found the HRIS implementation to be successful on a number of fronts. IOPA observed that the project team worked diligently to timely bring the HR, payroll, and timekeeping modules into production. The business case for implementing the new system was well-formed, and the selection and procurement processes were rigorous and compliant with established PCAOB policies and procedures. IOPA did not identify any significant, unreconciled differences between the pre- and post-implementation parallel payroll reconciliations. Timekeeping training and communications for both the project team and entire organization were comprehensive and well-delivered, and the system security and ongoing support were both deliberate and appropriate.

¹ IOPA limited its review to the implementation of the human resources (HR), payroll, and timekeeping functions through August 2021, after which the full implementation of the HRIS performance management functionality occurred.

During the course of their review, IOPA identified areas where they provided recommendations (primarily in the areas of project management and cost estimation/monitoring) that would add value to *future* internal, back-office projects/systems throughout the organization.

The Board has reviewed IOPA's recommendations and management's responses thereto and has approved the transmittal of the summary to you.

Please feel free to contact the Director of IOPA, Ryan Sack, at (202) 808-1574, or me if you have any questions or would like any additional information about the review.

Sincerely,



Erica Williams
Chair

Enclosure: IOPA Review No. 21-OA-01, August 2021

Internal Oversight and Performance Assurance

PCAOB Human Resource Information System Implementation

IOPA Review No. 21-OA-01 (Public)

August 2021¹

¹ This date represents the month in which IOPA's audit fieldwork was substantially completed.

EXECUTIVE SUMMARY

Background

In June 2019, the Office of Administration (OA), supported by the Office of Data, Security and Technology (ODST), embarked on a system implementation project to replace the legacy systems with the new Human Resource Information System (HRIS) to overcome technical function and support challenges. The HRIS steering committee, which consisted of leaders from OA and ODST and the Chief of Staff, provided project oversight and guidance while the HRIS project team, led by a consultant project manager since October 2020 and consisting of staff from OA and ODST, implemented the daily project tasks.² The HRIS project team collaborated with the vendor and a third-party Organizational Change Management (OCM) consultant in implementing the HRIS.³

The project to implement the HRIS human resources (HR), payroll, and timekeeping functions was initially slated for an October 2020 go-live date.⁴ However, the project was temporarily paused from April to October 2020, and the go-live date moved to April 1, 2021, to accommodate the schedule in the wake of COVID-19 and mandatory telework program circumstances. In October 2020, with the project resumed, the HRIS steering committee was expanded to include the Chief of Staff, and the project team reconstituted with much of the same membership as before the project pause.

IOPA performed its system implementation review in two phases: 1) pre-implementation review audit procedures to assess the preparedness of the system to produce accurate and complete payroll output on the go-live date of April 1, 2021, and 2) post-implementation procedures to assess the adequacy of internal controls and other OCM aspects of the HRIS deployment as of August 2021. These change management aspects included staff communications, a change champion network,⁵ and employee training. As the full implementation of the HRIS performance management functionality was expected to occur after our audit fieldwork, our detailed test work focused on the payroll and timekeeping functions. To provide timely communications prior to the April 1, 2021 go-live date for the payroll function, we reported the results of our pre-implementation review (which were positive) in a Board presentation on March 26, 2021.

Objective and Scope

The purpose of our review was to evaluate the implementation of HRIS through August 2021, including –

- project justification,
- project governance and management,

² The three management co-sponsors for the HRIS program at the time of our review were the Chief Financial Officer, the Chief Information and Data Officer, and the Chief Human Resources Officer. The former Chief Administrative Officer was a co-sponsor from July 2019 to October 2020.

³ The OCM consultant was separate from the consultant project manager and was engaged by OA to assist with process change management.

⁴ From the original Statement of Work: “**2. Estimated Project Timeline.**”

⁵ The change-champion network was a group of employees representing the various offices and divisions that would utilize the application. The formation of the group allowed the distribution of certain tasks related to employee awareness and training to the user functions.

- parallel and end-to-end payroll testing,
- communication and training,
- system security, and
- ongoing support.

While HRIS performs payroll processing, our scope of the pre-implementation review was limited to payroll system reconciliations performed as part of the system implementation project and did not involve an assessment of the payroll function, nor the underlying payroll data processing.⁶

We conducted our review in conformance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.

Summary Results and Conclusion

We found the HRIS implementation to be successful on a number of fronts, and we observed that the project team worked diligently to bring the HR, payroll, and timekeeping modules into production by the revised April 1, 2021 go-live date. OA selected HRIS to replace legacy systems, where one presented functionality challenges for both Office of Finance and Office of Human Resources. To the extent possible, HRIS was to be implemented "out-of-the-box," with minimal customization.

We noted that the business case for implementing a new system was well-formed, and the selection and procurement processes were rigorous and compliant with established PCAOB policies and procedures. We performed testing over the pre- and post-implementation parallel payroll reconciliations, noting no significant, unreconciled differences between the payroll systems. Timekeeping training and communications for both the project team and entire organization were comprehensive and well delivered, and the system security and ongoing support were both deliberate and appropriate.

We noted that work on integrations with other systems, the sunsetting of the legacy HR and payroll systems, and the change management associated with launching the performance management function continued on the project after we concluded fieldwork. Due to the timing of our review, and the expected organizational use of the performance management functionality beyond our review period, our detailed test work focused on HRIS's payroll and timekeeping functions.

During the course of our HRIS review, we identified areas where we felt we could provide recommendations (primarily in the areas of project management and cost estimation/monitoring) that would add value to *future* internal, back-office projects/systems throughout the organization, which we summarize below and categorize per IOPA's established risk scale.⁷

⁶ We reviewed the parallel processing reconciliation that OA performed to ensure that the HRIS payroll module was generating the same result as the legacy system, a key factor in the scope of the system implementation. Conversely, an IOPA review with the objective to inspect the OA payroll function and system data would come as the result of IOPA's annual risk assessment process and approval by the Board.

⁷ See Appendix for IOPA Risk Rating Legend.

Low Risk (0)	Moderate Risk (2)	Significant Risk (0)	Material Risk (0)
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- **Program Management and Project Planning**

The HRIS project team utilized a comprehensive listing of critical tasks and issues and relied on extensive coordination meetings to manage project resources and provide the communication of interdependencies. These tools and methods did allow the project team to move forward promptly in a diligent effort to complete the implementation of the HR, payroll, and timekeeping modules, and the project team worked tirelessly to meet its commitments. However, we believe an integrated project plan would have benefited the project team by enabling clear definition and time-phasing of project resources and cross-division interdependencies.

For the PCAOB to reach its potential in implementing large, multi-divisional projects in a more efficient and effective manner, we believe it will need to increase its level of project planning and utilize some scale of an integrated project plan to increase transparency and predictability, especially in the areas of project scope, time-phased resource utilization, interdependencies, and critical path. We recommend the PCAOB Chief of Staff consider whether the PCAOB should implement an organization-wide approach to large project planning and management, including the process for formal designation of the project manager.

- **Cost Estimating and Monitoring for Large Projects**

The PCAOB’s annual budgeting process estimates the total spending of the organization in a given calendar year for its various programs and functions. Therefore, any subsequent “budget vs. actual” analysis is simply a comparison of actual spending in a single calendar year versus the budgeted amounts for that year. This provides information on division/office cash management, but it offers limited insight on the progress the organization achieved, especially on its large, multi-year projects, where planned scope not accomplished in a given year may be moved to the next year and is included as part of the subsequent year’s budget. No requirement currently exists to reconcile project costs back to initial baseline cost estimates or to constrain the projects’ subsequent annual budget allocations by the amount already spent toward an initial cost baseline. Even large cumulative-cost overruns may not be visible to the organization, so long as spending in any single year does not exceed the annual budget.

Project-level, cumulative cost analysis is therefore necessary to evaluate total project cost performance for large, multi-year projects. This approach can scale to the rigor desired by the organization, but the process would start with the designated project manager working with any contributing divisions/offices to compile an integrated cost estimate baseline, which project management would use to communicate the expected full cost of the project and periodically compare with actual expenditures to identify any emerging cost-growth issues. While not currently required at the PCAOB, we believe this approach would have provided the HRIS project management team with increased visibility of cumulative cost performance and would be beneficial for future projects. We recommend the PCAOB Chief of Staff consider the extent to which the PCAOB might implement a scalable, organization-wide approach to project-level cost estimating and control for large, multi-year projects.

In October 2022, the Chief of Staff provided responses indicating acknowledgement of our audit observations and a commitment to further evaluation that is responsive to our recommendations.

We thank all personnel who supported our review, both at the senior management and staff operating level, for their courtesy and cooperation throughout this assessment.

APPENDIX

Risk Classifications and Definitions

To provide the reader with further perspective of the degree of risk IOPA attributes to each audit observation, we have assigned color-coded risk ratings as explained in the legend below.

Degree of Risk and Priority of Action	
Material	The degree of risk is unacceptable and poses a significant level of financial, compliance or operational risk to the organization. As such, complete remediation is generally required no later than one month from the time of the finalized IOPA report.
Significant	The degree of risk is undesirable and poses a significant financial, compliance or operational risk to the organization. As such, complete remediation is generally required no later than three months from the time of the finalized IOPA report.
Moderate	The degree of risk is undesirable and poses a moderate financial, compliance or operational risk to the organization. As such, complete remediation is generally required no later than six months from the time of the finalized IOPA report.
Low	The degree of risk appears reasonable but there are opportunities to further reduce risk through improvements to existing policies, procedures, and/or operations. As such, management should take actions to reduce the risks to the organization.

IOPA used its professional judgement in determining the overall ratings presented in the Executive Summary of this report. The report is intended to provide management with information about the condition of risks and internal controls at a point in time.