

June 1, 2010

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 a performance review, entitled "Past Recommendations from Reports to the Public Company Accounting Oversight Board." This performance review was 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 interested in the Board's work with 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 conformity with Government Auditing Standards issued by the Comptroller General of the United States.

IOPA undertook this review to determine the extent to which the Board had implemented prior, agreed-to, IOPA recommendations, and the extent to which the Board had met Sarbanes-Oxley Act requirements. Between 2004 and 2008, IOPA issued 15 performance review reports containing 50 recommendations. The report summary indicates that PCAOB managers concurred with 48 (96%) of those recommendations and that, in 40 cases (80%), management has completed or initiated actions to address the IOPA recommendation.¹ IOPA also identified 33 Sarbanes-Oxley Act mandates and concludes that 24 are being met on an ongoing basis; seven

¹ The two recommendations in which management did not concur were made in 2008. They related to preauthorization procedures for travel and certain reimbursed meal expenses. Both were considered by a task force convened to address a wide range of travel and expense matters. The task force decided not to implement these two recommendations in light of other controls in place.

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have been completed; and two are in process. The report also recommends that the Board's Chief Administrative Officer establish and maintain a tracking system to assure that corrective actions in response to IOPA reports occurred as planned.

Subsequent to IOPA's fieldwork for this review, the Board directed the Chief Administrative Officer to establish and maintain a PCAOB-wide tracking system, as recommended in the report. The tracking system will enable management and the Board to ensure that agreed-to actions in response to IOPA recommendations occur as planned. It will also facilitate reporting on such actions to the Commission and other interested parties.

With respect to IOPA's findings regarding recommendations in past reports, I would note that, while the majority of the recommendations have been completely addressed, 14 (28%) are either open or still in process. Many of these open and in-process recommendations relate to actions under consideration by the Office of Administration and the Office of Information Technology. These offices are working to enhance information technology governance, records management, enterprise management structure, and travel and meals policies. Those steps are integral to addressing IOPA's concerns.

With respect to implementation of Sarbanes-Oxley Act mandates, IOPA identified two requirements that were still in process – assessment and collection of an annual reporting fee, and establishment of a scholarship program pursuant to Section 109(c)(2) of the Act. As to the former, and as the report notes, subsequent to IOPA's fieldwork, on April 13, 2010, the Board announced the annual fee, and an amendment to the registration fee, sufficient to recover the costs of processing and reviewing applications and annual reports.² For the 2010 annual reporting cycle, fees are due by July 31, 2010. As to the scholarship program, the Board has discussed alternative ways of structuring and awarding scholarships and established a working group to develop a recommended approach. I anticipate that the Board will receive and vote on this group's recommendations later in June, with a view to announcing and implementing the program by the end of 2010.

² See Announcement of Annual Fee and Increase in Minimum Registration Application Fee, PCAOB Release No. 2010-002 (April 13, 2010).

PCAOB

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The Board intends to publish the attached summary of IOPA's report on the PCAOB's Web site on or about June 8, 2010. Please feel free to contact me or the Director of IOPA, Peter Schleck (202-207-2085), if you have questions or would like any additional information about IOPA's review or about past recommendations.

Sincerely,



Daniel L. Goelzer
Acting Chairman

Enclosure: Past Recommendations from Reports to the Public Company Accounting Oversight Board (IOPA-2010-001) May 14, 2010

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

PERFORMANCE REVIEW

PAST RECOMMENDATIONS FROM REPORTS TO THE PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD (IOPA-2010-001)

INTERNAL OVERSIGHT AND PERFORMANCE ASSURANCE May 14, 2010

Background and Objective

The Sarbanes-Oxley Act of 2002 (the Act) contained reforms to enhance auditor independence and audit quality and to restore investor confidence in the nation's capital markets. The Act established the Public Company Accounting Oversight Board (PCAOB) making it responsible for 1) establishing auditing and related attestation, quality control, ethics, and independence standards applicable to audits of public companies, 2) conducting inspections, investigations, and disciplinary proceedings of public accounting firms registered with the PCAOB, and 3) imposing sanctions, as warranted.

As stated in its 2008 Annual Report, the PCAOB monitors its operations through its Office of Internal Oversight and Performance Assurance (IOPA). Established in 2004, IOPA provides the Board assurance with respect to quality, accountability, and operational efficiency of PCAOB programs and operations. This supports the Board's goal to operate the PCAOB in a manner that recognizes its public mission and responsibility to exercise careful stewardship over its resources. IOPA fulfills this mission by conducting performance reviews of PCAOB programs and operations and making recommendations to management for improvement.

Consistent with IOPA's 2008 Risk Assessment and 2008 – 2010 Performance Review Plan, we conducted this review to determine the extent to which the PCAOB has 1) implemented agreed-to recommendations made by IOPA, and 2) met requirements established by the Sarbanes-Oxley Act of 2002 (the Act).^{1/}

^{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

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RESULTS IN BRIEF

Between 2004 and 2008, IOPA issued 15 performance review reports containing 50 recommendations to management. PCAOB managers have concurred with the majority of those recommendations and, in many cases (80%), completed or initiated actions intended to address the underlying concerns. Given the number of recommendations, however, and the fact that corrective actions sometimes occur over an extended period of time, a PCAOB-wide tracking system could be a helpful tool. Such a system would enable management and the Board to ensure that agreed-to actions occur as planned and would also facilitate reporting on such actions to the Securities and Exchange Commission (SEC) and other interested parties. SEC staff has, in fact, expressed to IOPA an interest in a report recommendation tracking system.

The report included recommendations regarding a new tracking system to be established and maintained by the Chief Administrative Officer (CAO). The CAO agreed with IOPA's recommendations.

In addition, PCAOB has completed or is meeting on an ongoing basis the vast majority of its statutory requirements as established in the Act. However, we identified two cases where actions have been initiated but more needs to be done to meet the requirements of the Act:

- The Board has not yet set an annual fee in order to ensure collection of amounts sufficient to recover the costs of processing and reviewing applications and annual reports;² and,
- While the Board has assessed some monetary penalties, the scholarships for undergraduate and graduate students intended to be funded by these collections have yet to be granted, and no specific program or approach had been adopted.

full report includes a detailed discussion of the review objective, scope, and methodology.

^{2/} On April 13, 2010, subsequent to IOPA's field work for this review, the Board took action to establish annual fees, thus fulfilling this statutory requirement.

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While the Act does not establish a timeframe for implementation, management should act to meet these requirements given the significant passage of time since enactment.

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Past Recommendations in IOPA Reports

Consistent with its charter, IOPA performs reviews and issues reports containing its observations and conclusions. As appropriate, IOPA's reports contain recommendations to PCAOB Division or Office Directors intended to help resolve underlying issues included in the reports. PCAOB managers are responsible for responding to IOPA's recommendations. Ultimately, the Board decides whether management's proposed response and intended follow-up actions are appropriate.

In order to maximize IOPA's credibility to outside oversight organizations and to ensure maximum benefit to the Board, IOPA conducts its performance reviews in accordance with Generally Accepted Government Auditing Standards (the Government Accountability Office (GAO) "Yellow Book"). The Board approved the adoption of these standards for IOPA in June 2004. These standards require IOPA to follow up on findings and recommendations from previous audits having an effect on audit objectives to determine whether prompt and appropriate corrective actions were taken by responsible officials. Thus, IOPA includes follow-up steps as part of each performance review it conducts.

Under, the GAO Yellow Book, management is responsible for:

1. Addressing the findings and recommendations of auditors, and for establishing and maintaining a process to track the status of such findings and recommendations; and,
2. Implementing systems designed to achieve compliance with applicable laws and regulations.

Between 2004 and 2008, IOPA issued 15 performance review reports containing 50 recommendations. IOPA categorized the actions taken by management^{3/} as one of the following:

- **Open** – Little or no action has been taken, but management still intends to address the recommendation.

^{3/} These assessments were made based on discussion with and documentation provided by management. IOPA did not re-audit the area to determine whether the underlying conditions had been fully addressed.

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- **In Process** – Management has begun to take corrective action, but more needs to be done.
- **Completed** – Some form of the recommended action has been taken or a process put in place. In some cases, responsive actions need to occur on a continuing basis or effective implementation of decisions or analysis will need to occur to obtain the desired result.
- **Closed** – Management has elected not to take the recommended action.

Relative to the 50 IOPA recommendations that were made as of the end of 2008, 8 recommendations were “Open,” 6 were “In Process,” 34 were “Completed,” and 2 had been closed without action. The following table shows the status of corrective actions by Office or Division.

Table 1
Status of Management Actions

Division/Office	Open	In Process	Completed	Closed	Total
Administrative					
CAO	3	3	8	2	16
Budget	0	0	1	0	1
Finance	0	1	5	0	6
Human Resources	0	0	3	0	3
Information Technology	5	1	2	0	8
Enforcement	0	0	2	0	2
Inspections	0	0	7	0	7
Standards	0	0	4	0	4
Research and Analysis	0	1	2	0	3
TOTAL	8	6	34	2	50
Percent	16%	12%	68%	4%	100%

While the majority of recommendations had been completely addressed, 28% were either open or still in process. Some of these recommendations were made as long ago as 2004 and still had not been addressed. While in some cases there were understandable reasons for delay, in others the reason for lack of action was not entirely clear. In some cases, new office leadership had taken over since the original

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recommendations were made, resulting in uncertainty as to what had been planned or done in response.

System of Accountability

In January 2006, members of the Board expressed the view that managers to whom IOPA recommendations were addressed would be held responsible for implementation of corrective actions required. At that time, there had only been five IOPA reports, and a centralized tracking system was not deemed necessary. Since that time, IOPA has issued 10 more reports. In addition, the offices and divisions charged with responsibility for corrective action have also experienced turnover in leadership, including the CAO, Finance, Information Technology, Standards, and Research and Analysis. Also, a new Budget Office was created.

Benefits of Tracking Corrective Action

IOPA concluded that a PCAOB-wide tracking system could be a helpful tool that would management and the Board could use to ensure that agreed-to actions occur as planned. A tracking system would also facilitate reporting on such actions to the SEC and other interested parties. SEC staff has, in fact, expressed to IOPA an interest in a report recommendation tracking system.

Based on our review, IOPA recommended that the CAO develop and assume responsibility for a tracking system. The CAO, with the support of the Board, agreed with this approach.

Sarbanes-Oxley Requirements

The Sarbanes-Oxley Act was enacted to enhance auditor independence and audit quality and to restore investor confidence in the nation's capital markets. The Act established the PCAOB, setting out the requirements and authorities for the Board in Title I. For purposes of our analysis, we broke Title I into 33 separate mandates.^{4/} A

^{4/} There is some overlap between the 33 mandates. For example, Section 101 of the Act contains some very broad provisions, which are then prescribed in greater detail later on in the Act. In addition, each of the 33 mandates may contain multiple elements. The grouping into the 33 mandates was made merely for ease of

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complete listing of the statutory obligations found in Title I and the status of those requirements can be found in Appendix 3. The majority of these requirements are of an ongoing nature.

Based on discussions with the Office of General Counsel and review and evaluation of documentation provided, 24 of the mandates were being met on an ongoing basis; 7 had been completed; and, 2 were in process. The two requirements that were still in process at the time of this review relate to the following mandates:

- The Board shall assess and collect a registration fee and an annual fee from each registered public accounting firm, in amounts that are sufficient to recover the costs of processing and reviewing applications and annual reports.^{5/}
- Subject to the availability in advance in an appropriations act, and notwithstanding section 109(i), all funds collected by the Board as a result of the assessment of monetary penalties shall be used to fund a merit scholarship program for undergraduate and graduate students enrolled in accredited accounting degree programs and program is to be administered by the Board or by an entity or agent identified by the Board.

With respect to the collection of fees from registered firms, the PCAOB has been collecting registration fees on an ongoing basis and adopted rules to establish annual reporting beginning June 30, 2010, including assessment of an annual fee. A memo was presented to the Board on February 4, 2010, setting out a proposed strategy to recover the costs of processing and reviewing the applications and annual reports. However, at the time of this review, the annual fee had not been set. This issue relates to one of IOPA's previous recommendations as part of a 2005 review of the PCAOB's Finance Function.^{6/} In that report, IOPA recommended that the Chief Financial Officer (CFO), in consultation with other key leaders, revisit the June 2003 memo regarding the

evaluation as to status. Also, the 33 mandates should not be viewed as equivalent in weight or importance.

^{5/} On April 13, 2010, subsequent to IOPA's field work for this review, the Board took action to establish annual fees, thus fulfilling this statutory requirement.

^{6/} *Internal Control Review of the Public Company Accounting Oversight Board's Finance Function* (IOPA-2005-002), October 27, 2005.

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calculation of registration fees and, if necessary, revise the methodology described to ensure that all costs associated with processing and reviewing applications and annual reports are collected from registered public accounting firms. At the time of this review, management action had not been completed on this recommendation.

Regarding the scholarship program, the Board has assessed some monetary penalties, but no scholarships have been granted to date, and no specific program or approach has been adopted. IOPA has scheduled a review of the scholarship program in its 2009-2011 Performance Review Plan.

While no specific timelines were established in the Act to meet these requirements, the Board has been in operation since 2003. If the Board does not take action in these areas soon, there may be reputation or other risks to the Board.