

PCAOB

Public Company Accounting Oversight Board

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October 21, 2016

The Honorable Mary Jo White
Chair
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

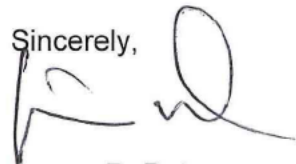
Dear Chair White:

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 Payroll and Paid Time Off Reporting. 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 assess internal controls over payroll and the use and approval of Paid Time Off (PTO). IOPA found that progress had been made in strengthening internal controls and processes over payroll and the use and approval of PTO. Staff members with qualifications that better match the PCAOB's new systems had been hired and were beginning to standardize and document regular processes. The PCAOB's Office of Administration (OA) leadership now believes they are in a positive "growing and building" mode. In addition, OA had been working to address certain long-standing matters, while managing new and ongoing requirements. However, work remains as OA moves towards modernizing and improving its business processes.

The Board intends to publish the attached summary on the PCAOB's Web site on or about October 28, 2016. 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
Payroll and Paid Time Off Reporting (IOPA-2016-001)

cc: The Honorable Kara M. Stein
The Honorable Michael S. Piwovar

PERFORMANCE REVIEW

REVIEW OF THE PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD'S PAYROLL AND PAID TIME OFF REPORTING (IOPA-2016-001)

**INTERNAL OVERSIGHT AND PERFORMANCE ASSURANCE
OCTOBER 13, 2016**

BACKGROUND AND OBJECTIVE

In 2015, the Public Company Accounting Oversight Board (PCAOB) spent approximately \$182 million on salaries, employee benefits, and payroll taxes in support of its mission. At the end of 2015, the PCAOB had 851 employees. At about 74% percent of total outlays for the year, personnel expenses represent the Board's most significant budgetary consideration. Further, timely and accurate pay and tax withholding serves an important role in keeping employees engaged on mission-critical work. The Office of Chief Financial Officer (OCFO) coordinates the payroll program for the PCAOB, and the Office of Human Resources (OHR) is responsible for administration of employee benefits. Both of these offices are part of the Office of Administration (OA).

The PCAOB also provides regular employees¹ with a Paid Time Off (PTO) benefit to use for vacation, personal or family needs or in case of sickness and all other absences, including absences covered by the DC Accrued Sick and Safe Leave Act of 2008.² Eligible PCAOB employees accrue PTO at a rate of six weeks (240 hours) annually, which equates to 10 hours per pay period. Regular full-time employees may accrue unused PTO up to a maximum limit of nine weeks (360 hours). If unused PTO reaches the cap, further accrual of PTO will be suspended. Accrued but unused PTO is paid only upon termination of employment. As of December 31, 2015, PCAOB had an accrued PTO liability of \$13.6 million. The PCAOB's Employment Policies and Procedures Manual encourages employees to use PTO and instructs them to budget time off carefully.

¹ Interns and other temporary employees do not receive this benefit.

² PCAOB also offers Paid Holidays, Jury/Witness Leave, Voting Leave, Bereavement Leave, Domestic/Sexual Violence Leave, and Short and Long-term Disability.

PERFORMANCE REVIEW

In its 2015 – 2019 Strategic Plan, the PCAOB reaffirms its commitment to carrying out the Board’s responsibilities in a manner that demonstrates careful stewardship over resources. The Plan includes strategies for continuing to

- Improve internal processes in programmatic and administrative areas, using technology as applicable; and
- Evaluate and modernize information systems that support core Human Resources and Finance processes, with a view to increasing process efficiencies, reducing system complexity, and enhancing automation.

In mid-2014, the PCAOB’s Chief Administrative Officer (CAO) commenced the development of a multi-year plan³ to ensure that OA is better positioned to partner with the PCAOB’s divisions, offices and leadership to support their evolving and increasing administrative needs. This plan includes activities relevant to payroll and PTO reporting, including:

- Ensuring proper alignment of skill sets to roles;
- Encouraging all staff to seek relevant training courses;
- Assessing the payroll process - including the processing and recording of PTO and other employee benefits;
- Maintaining clear, robust documentation of payroll policies and procedures;
- Ensuring compliance with the applicable provisions of the Affordable Care Act; and
- Implementing Ultimate Time & Attendance (UTA).⁴

³ Most recent version: “Office of Administration, 2015-2018 Initiatives, May 6, 2016”

⁴ OCFO will work with OHR, the Office of Information Technology (OIT), and divisions/offices to complete end-to-end testing, including identifying any system configuration changes that are necessary; assisting with training and communications, as needed; developing and implementing an approach to administering UTA; and developing and implementing an approach to cost OIT’s time.

PERFORMANCE REVIEW

In 2015, the Office of Internal Oversight and Performance Assurance (IOPA) received feedback and information suggesting that OA faced substantial challenges in the administration of payroll and PTO. Given the financial and operational significance of PCAOB's payroll and benefits program, IOPA conducted this review to assess internal controls over payroll and the use and approval of PTO.⁵

RESULTS IN BRIEF

Progress has been made in strengthening internal controls and processes over payroll and the use and approval of PTO. Staff members with qualifications that better match the PCAOB's new systems have been hired and are beginning to standardize and document regular processes. OA leadership now believes they are in a positive "growing and building" mode. In addition, OA has been working to remediate issues, some long standing, while managing new and ongoing requirements. However, work remains as OA moves towards modernizing and improving its business processes.

Controls over both payroll and PTO were adversely affected by a difficult system implementation, which took longer than anticipated and required some of the original scope to be postponed to future projects. This prolonged wait for replacement of the time reporting system has contributed to a control system that:

- Lacks automated workflows;
- Is not user-friendly;
- Requires certain processes to be run in both systems;
- Involves various manual reconciliation processes; and
- Has not been fully documented.

High staff turnover, both voluntary and involuntary, and the skill sets of key personnel also contributed to these concerns.

⁵ 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.

PERFORMANCE REVIEW

As a result, substantial cost and effort was and will continue to be spent on correcting past errors. For example, the PCAOB:

- Did not process certain types of employee recorded PTO, over a 9 year period, resulting in the need to analyze the validity of over 3,700 hours of PTO, valued at more than \$355,000, including potential excess payments to separated employees of about \$82,000;
- Paid \$31,293 in penalties to the Internal Revenue Service (IRS) for a tax payment made 9 days late and may be subject to future penalties for other tax reporting errors including issuing corrected W-2s for 2014; and
- Incurred legal and consulting fees in excess of \$500,000 over a 3-year period seeking advice on a number of tax and payroll-related compliance issues.⁶

In addition, contrary to the intended benefits of a PTO policy, PCAOB had an escalating PTO liability and employees that had maxed out their benefit were losing PTO.

As a result of this review, IOPA made recommendations to the CAO intended to assist in strengthening and increasing the efficiency of internal controls.

⁶ Some of these issues date back several years.