September 29, 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 Report on *Office of Human Resources: Talent Acquisition and Management Review* (IOPA Review No. 23-OA-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 effectiveness of the PCAOB's talent acquisition and management (TA&M) practices, to assess the alignment of those practices with organizational strategic plan objectives, and to identify potential process improvements to further optimize performance, as of May 2023.

      As the summary report sets forth, IOPA found that the Office of Human Resources (OHR) has made significant progress in achieving the organization's recruiting goals. Additionally, IOPA noted positive feedback on recent employee engagement and retention initiatives. During the course of their review, however, IOPA identified opportunities to enhance ongoing TA&M efforts. Specifically, IOPA asserts that OHR could: (1) define, update, automate, and document OHR's business processes; (2) create objective support for a strategic workforce planning approach; (3) clarify compensation fairness efforts and related communications; and (4) ensure successful and timely implementation of human resource information system enhancements.

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

The PCAOB intends to publish the attached summary on its website on or about October 6, 2023. Please feel free to contact the Acting Director of IOPA, Brian Janda, at (202) 549-8329 or me if you have any questions or would like any additional information about the review.

Sincerely,

Erica Y. Williams

Erica Williams
Chair

Enclosure: IOPA Performance Review Report on *Office of Human Resources: Talent Acquisition and Management Review* (IOPA Review No. 23-OA-01)

Internal Oversight and Performance Assurance

Office of Human Resources:
Talent Acquisition and Management Review

IOPA Review No. 23-OA-01

May 2023[1]

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

EXECUTIVE SUMMARY

Background

As detailed herein, from January through May 2023, the Public Company Accounting Oversight Board's (PCAOB or "Board") Office of Internal Oversight and Performance Assurance (IOPA) conducted a review of organizational talent acquisition (recruitment) and talent management (retention) (TA&M) practices ("Review"). The Sarbanes-Oxley Act of 2002, as amended (the "Act"), establishes the Board's authority 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)."[2] The PCAOB's Office of Human Resources (OHR) is tasked with assisting the Board in talent acquisition, talent management, compensation and benefits, employee relations, culture and engagement, performance management, human resources information systems, learning and development, and related supporting activities.

In its Strategic Plan for 2022 - 2026, the Board noted that "[t]he PCAOB's most valuable resource is people, including the more than 800 dedicated professionals on our staff who carry out our mission."[3] As such, one objective of the Board's strategic plan has been to "radically improve the employee experience."[4] Specifically, the Board noted that,

> [t]he PCAOB cannot achieve its mission without a talented, experienced, and engaged staff. We rely on their expertise, skills, and experience to write standards, inspect audit firms, bring enforcement actions, and support our efforts. We will strive to retain current staff members and attract future employees by increasing employee engagement. This means investing in professional development, fostering a diverse and inclusive workplace culture, and promoting employee well-being. We will enhance productivity and a sense of connectedness among employees through working arrangements that provide flexibility, autonomy, and opportunities for meaningful employee interaction.[5]

Attracting and retaining qualified staff is critical to the PCAOB's success in accomplishing its investor protection mission.

Personnel is the PCAOB's primary cost driver, representing nearly three-fourths of the total organizational budgeted costs for 2023.[6] Notably, shifts in the labor market in recent years have presented global and national recruiting and retention challenges, with labor shortages forecasted to persist for years to come.[7] A multitude of contributing factors include an aging workforce, with the share

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[2] Section 101(f)(4) of the Act, 15 U.S.C. § 7211.

[3] 2022 – 2026 Strategic Plan.

[4] *Id.*

[5] *Id.*

[6] 2023 Budget.

[7] Roy Maurer, Labor Shortages Forecast to Persist for Years, SHRM.org (May 3, 2023).

of working-age people in the U.S. shrinking from 67.3% in 2007 to 64.9% in 2021.[8] Likewise, the Covid-19 pandemic exacerbated labor market challenges, with a sharp drop in the U.S. labor force participation rate, including with many accelerated retirements[9] and many people (especially women) leaving their jobs in order to manage family and home needs, with a significant proportion not re-entering the workforce during and after the pandemic.[10] In addition to these macro-level challenges, the specialized and advanced skills required of PCAOB staff add an additional layer of complexity to recruiting efforts, as do the budgeting constraints on the PCAOB as a not-for-profit entity.

During IOPA's Review, we identified OHR's use of a variety of sources for candidate recruitment, including via a strong employee referral program, LinkedIn, Indeed.com, the PCAOB's website, and internal postings. Following the implementation of the PCAOB's hybrid work program (Workplace 2.0), and the ostensible success of an effective mandatory telework period, OHR implemented a geographical expansion of recruiting efforts to increase the overall size of the recruiting talent pool. OHR also developed a "Returnship" program, which uses a specialized third-party to source candidates desiring to return to work after time spent out of the workforce. Additionally, OHR thoughtfully expanded their use of professional and diverse organizational job boards, to help source diverse candidates and support Board diversity, equity, inclusion, and belonging goals. Finally, OHR significantly revamped its online recruiting presence by enhancing the PCAOB's website careers page through messaging additional Workplace 2.0 considerations and expanded benefits, incorporating staff video testimonials, adding salary transparency to job postings, and using a hashtag designation on LinkedIn job postings to denote the "hybrid" work environment.

Under the current Board's direction, OHR developed a number of employee engagement and retention initiatives to help improve staff satisfaction.[11] For example, OHR created Affinity Groups to promote and empower diverse groups within the PCAOB and to foster a diverse and inclusive workplace culture. Each Affinity Group is supported and sponsored by Board members and senior organizational leadership. OHR also established an Employee Engagement Champions Group (EECG), composed of working groups focused on enhancing professional development, redefining PCAOB culture, and increasing employee engagement across the organization. Both Affinity Groups and the EECG serve to foster and implement ideas directly from PCAOB staff.

In 2021, the Office of Administration (OA), supported by the Office of Data, Security, and Technology (ODST),[12] implemented a new Human Resource Information System (HRIS) to replace legacy systems for

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[8] Working Age Population, Organisation for Economic Cooperation and Development (as of May 4, 2023); *see* Maurer.

[9] Victoria Gregory and Joel Steinberg, Why Are Workers Staying Out of the U.S. Labor Force?, Federal Reserve Bank of St. Louis, (May 4, 2023).

[10] *Id.*

[11] While praising the numerous initiatives, a number of D/O leaders interviewed by IOPA noted that the rapid pace and extensive volume of new organizational initiatives have made it somewhat difficult for PCAOB staff to find time to actively engage with these offerings while also maintaining a sufficient focus on core D/O objectives. For example, several D/O Directors noted that recent workloads have prevented numerous staff members from participating in initiatives in which they otherwise might have engaged (*e.g.*, volunteer hours).

[12] Subsequent to the completion of IOPA's fieldwork, OA and ODST were combined to form the new Office of the Chief Operating Officer as of July 1, 2023.

human resources (HR), payroll, timekeeping, and other administrative functions.[13] At the time of our Review fieldwork, many HRIS functions and modules have been successfully implemented, but a number of functions that directly impact and support automation and efficiency of TA&M functions remain in process.

Objective and Scope

The purpose of our Review was to evaluate the effectiveness of the PCAOB's TA&M practices, to assess the alignment of those practices with organizational strategic plan objectives, and to identify potential process improvements to further optimize performance. The scope of our review covered procedures in place as of May 2023. To accomplish our objective, we:

1. Reviewed and evaluated documented policies and procedures guiding TA&M processes.
2. Reviewed relevant attrition and hiring metrics.
3. Interviewed OHR leadership and staff to gain an understanding of recruiting and retention work streams, initiatives, and related interactions with supported D/Os.
4. Interviewed leadership and staff in ODST; DEI; the Division of Registrations and Inspections (DRI); and Office of the General Counsel (OGC) to understand how they collaborate with OHR staff and whether any opportunities for improvement exist.
5. Performed sample testing on newly hired and posted open positions to verify appropriate procedures and documentation.
6. Reviewed the current status of HRIS module implementation and the planned implementation of additional modules and functionality.

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 that OHR has made significant progress in achieving the organization's recruiting goals. Recent encouraging hiring metrics appear aligned with the largely consistent positive feedback on recruiting efforts that IOPA received during interviews with D/O leadership. D/O leadership also gave generally positive feedback on recent employee engagement and retention initiatives.

During the course of our Review, however, we identified opportunities to enhance ongoing TA&M efforts, which are described further in the detailed section of this report. The brief table below summarizes and categorizes the audit observations on a risk scale.[14]

Low Risk (3)	Moderate Risk (1)	Significant Risk (0)	Material Risk (0)

Our observations are briefly described below –

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[13] IOPA previously evaluated the implementation of HRIS through August 2021, including the HR, payroll, and timekeeping modules.

[14] *See* Appendix A for IOPA Risk Rating Legend.

⬤ ***Define, Update, Automate, and Document OHR's Business Processes –*** Beginning with changes in Board and OHR leadership in 2022, OHR started documenting certain existing policies and practices that were not previously formally documented, which, along with a lack of a central repository for process documentation, had historically contributed to confusion and inefficiencies for OHR staff and other PCAOB employees. As OHR undertook documenting its processes, IOPA identified a need and opportunity for OHR to refocus on process improvement, including by leveraging automation and enhancing support for new hires and special project work. Furthermore, we believe that an expanded and more timely deployment of enhanced HRIS functionality has the potential to improve efficiencies (including interdepartmental collaboration) and controls.

As detailed herein, we therefore recommend that OHR: (1) formally draft, distribute, and update as needed Standard Operating Procedures (SOPs) for all TA&M business processes; (2) enhance OHR support from recruiting through onboarding; (3) consider the need for an HR generalist for overfill and liaison needs; and (4) further automate OHR's TA&M business processes.

⬤ ***Create Objective Support for a Strategic Workforce Planning Approach –*** IOPA sees a long-term opportunity for the Board to adopt a strategic workforce planning approach, with aid and support from OHR. We recommend the Chief Human Resource Officer (CHRO) assist with this process by documenting a workforce planning cost-benefit analysis that fully considers the cost of implementing the approach and identifies benefits to the organization. IOPA further asserts that workforce planning should incorporate succession planning and career planning.

⬤ ***Clarify Compensation Fairness Efforts and Related Communications –*** In 2022, in the midst of an increasing organizational attrition rate, the Board adopted a strategic objective of "radically improving the employee experience," which focuses on "striv[ing] to retain current staff members and attract future employees."[15] Generally, IOPA received very positive feedback on OHR's extensive TA&M efforts taken of late. Nonetheless, IOPA received frequent and emphatic feedback from across the organization that compensation fairness is a primary concern, which IOPA notes mirrored related concerns raised in the employee engagement survey results from both 2022 and 2023. As such, IOPA recommends that OHR: (1) improve communication and education surrounding OHR's annual compensation analysis; and (2) continue to monitor inflation as part its compensation review, especially in light of recent historically high inflation.

⬤ ***Ensure Successful and Timely Implementation of HRIS Enhancements –*** At present, the underutilization of HRIS functions and modules has created space for inefficiencies throughout TA&M processes. Frequent functional questions from D/O leadership consume OHR staff time that could be dedicated elsewhere. Moreover, OHR staff frequently rely on manual workarounds to accomplish their goals, which creates control risks. In IOPA's view, the continued implementation of HRIS enhancements, along with mandatory training, should lead to increased and cross-functional visibility into organizational data for OHR staff and D/O leadership, as well as more timely information and better reporting. As such, we recommend that OHR: (1) redouble efforts to expeditiously roll-out enhanced HRIS functions and modules; (2) consider additional mandatory HRIS training for OHR staff; and (3) consider mandatory organization-wide HRIS training for People Leaders.

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[15] Strategic Plan 2022-2026.

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OHR provided a response indicating a commitment to actions that are 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.

APPENDICES

Appendix A – 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 on a highest priority basis.
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 on a high priority basis.
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 on a medium priority basis.
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, on a lower priority basis, 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.