

October 28, 2010

The Honorable Mary L. Schapiro
The Honorable Kathleen L. Casey
The Honorable Elisse B. Walter
The Honorable Luis A. Aguilar
The Honorable Troy A. Paredes
100 F Street, N.E.
Washington, DC 20549

Re: Request to Establish a New PCAOB Office of Outreach and Small Business Liaison

Chairman Schapiro and Commissioners:

In light of certain recent developments, the Public Company Accounting Oversight Board ("PCAOB" or "Board") is requesting approval of a supplemental budget for 2010 in order to establish a new Office of Outreach and Small Business Liaison ("Office").¹ The establishment of the Office would not result in a net staffing increase for the organization, but rather a reallocation of existing staffing and resources to the Office from other areas of the PCAOB.

This letter sets forth the background, budget justification and estimated resource requirements for this request. Specifically, consistent with the Budget Rule, this letter includes: (1) a statement regarding how the supplemental budget facilitates the PCAOB's strategic and policy goals; (2) information regarding the impact of the supplemental budget on each affected program area; (3) the proposed source of funds; (4) information indicating why the request was not included in the PCAOB's 2010 budget; and (5) information indicating why the request cannot be incorporated as part of the 2011 budget process.

¹ A supplemental budget is defined as a "budget or amendment thereto submitted to the Commission for approval subsequent to Commission approval of the budget for the budget year when * * * [r]esources are to be applied in a manner not fairly implied in the Commission-approved budget and budget justification, such as when programs are created to perform functions that are not, or to perform functions in a way that is not, fairly implied from the Commission-approved budget and budget justification." See 17 CFR § 202.190(b)(10)(ii); 71 Fed. Reg. 41998, 41999 (July 24, 2006) ("Budget Rule").

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Background

In a letter dated May 27, 2010, Representatives Spencer Bachus, Scott Garrett and Lynn Jenkins inquired concerning my views of legislation that would have required the Board to create an office of ombudsman, with certain statutorily-defined duties. In response, I undertook to create an office that would focus on outreach and interaction with persons impacted by the Board's work, particularly smaller accounting firms and their clients. I thought it was important to strengthen the Board's outreach efforts with respect to smaller firms and their clients and that such an objective was best accomplished without the enactment of any legislation. The planned Office of Outreach and Small Business Liaison would fulfill that commitment.

On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") vested the PCAOB with the authority to oversee auditors of the financial statements and selected practices and procedures of SEC-registered securities broker-dealers. The great majority of the more than 500 additional firms that have registered with the Board because they perform broker-dealer audits are, like their clients, small businesses. In light of this new authority, the Board began to reassess its communications and outreach strategy. As a result of this reassessment, the Board intends to enhance its outreach function and establish the Office to act as a liaison between the PCAOB and any PCAOB-registered public accounting firm, or any other person affected by the Board's regulatory activities, including in particular entities in the small business community, such as the auditors of broker-dealers.

1. Proposed Organizational Structure and Responsibilities

It is anticipated that the Office will be accountable to the Board for planning and conducting a program of small business forums, including both the Board's existing Forums on Auditing in the Small Business Environments as well as new small business forums directed to the smaller broker-dealer and broker-dealer auditor communities; identifying areas where information related to Board functions is not well understood and suggesting a plan of action to remediate that lack of understanding; seeking input from the small business community on issues related to the PCAOB's work; and identifying any new entities that might benefit from learning about PCAOB-related activities. The Office is also

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expected to act as a liaison between the Board and accounting firms and others affected by the Board's work, by –

- Seeking input, and receiving and responding to questions and other concerns, relating to the effect of the PCAOB's work on the small business community, including auditors of smaller broker-dealers and their audit clients;
- Serving as a contact for anyone who, as a result of the Board's regulatory activities, may have difficulties dealing with the Board;
- Assisting investors, smaller accounting firms and others in locating publicly available information issued by the Board, including inspection reports, disciplinary proceeding results, Rule 4010 reports, and other Board materials; and
- Facilitating outside party contact with appropriate Board staff (e.g., helping public accounting firms reach the appropriate PCAOB staff to raise an informal concern or to discuss an ongoing inspection, registration application or annual report).²

The Director of the Office will report directly to the Chairman.

Budget Justification and Resource Requirements

1. Supplemental Budget's Facilitation of the PCAOB's Strategic and Policy Goals

The establishment of the Office would facilitate the PCAOB's strategic and policy goals by enhancing the Board's outreach and communications function,

² It is anticipated that the Office will not become involved in disputes between employees of the PCAOB or the PCAOB and its employees, nor will it become involved in disputes between the PCAOB and any outside entity unrelated to the Board's regulatory activities; disputes between outside parties; the merits of a disciplinary proceeding; or substantive decisions involving inspection reports, remediation reports, or registration or annual reports.

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particularly as it relates to the small business community and in light of the Board's new oversight authority over auditors of broker-dealers.

Goal 3 of the Board's current Strategic Plan 2009-2013, dated November 30, 2009, is "to inform, educate and obtain input from a broad cross-section of the public, including auditors, investors, the academic community and other interested parties, about the PCAOB's oversight activities." In light of the enactment of the Dodd-Frank Act and as part of the reassessment of its communication and outreach strategy, the Board is in the process of revising its strategic plan. The Board's revised draft Strategic Plan 2010-2014, which was transmitted to the Commission on July 30, 2010, concurrent with the transmission of the 2011 Preliminary Budget, includes a new objective under this Goal 3 to establish the Office.

2. Impact of the Supplemental Budget on Each Affected Program Area

The establishment of the Office would primarily impact the Board's existing Office of Communications ("OC"), by transferring the outreach function – including budgetary and staff resources associated with the Board's existing Forums on Auditing in the Small Business Environment as well as certain staff resources related to the Web site -- from OC to the Office.³

3. Proposed Sources of Funds and Information Related to the Timing of the Request

In 2010, the Chairman intends to appoint the current Director of Communications to the position of Director of the Office. The Board believes that

³ At the same time that the Office is established, the press and government relations functions, which are currently part of OC, would be transferred to separate offices -- the Office of Public Affairs and the Office of Government Relations, respectively. The current Deputy Director, Public Affairs in OC would become the Director of the Office of Public Affairs and the current Deputy Director, Government Relations in OC would become the Director of the Office of Government Relations. In addition, the internal communication function, which is also currently part of OC, would be transferred to the Office of Administration.

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transferring the outreach function from OC to the Office would not result in a net cost increase in 2010 since doing so does not result in the creation of any new positions. To the extent that any unanticipated costs do emerge, the PCAOB would propose to accommodate them from within available funds currently budgeted for OC in 2010.

It is anticipated that the Office will cost \$1.25 million next year, a portion of which is attributable to transferring the budgetary and staff resources associated with the existing Forums on Auditing in the Small Business Environment from OC to the Office, as well as establishing additional Forums on Audits of Practices, Procedures and Financial Statements of Broker Dealers. Additional details regarding the 2011 costs of the Office, as well as the Office of Public Affairs and the Office of Government Relations, are included as an attachment to this letter.⁴

In response to the letter from Representatives Bachus, Garrett and Jenkins, I undertook to create an office that would focus on outreach and interaction with persons impacted by the Board's work, particularly smaller accounting firms and their clients. In light of this commitment, I believe that it is important to establish this Office in the fourth quarter of 2010, as opposed to incorporating such a request as part of its 2011 Budget, in light of anticipated rulemaking related to its new oversight authority. In particular, in the fourth quarter the Board intends to commence rulemaking to implement the related provisions of the Dodd-Frank Act. Such rulemaking will likely raise numerous issues with respect to the oversight of this new group of PCAOB regulated entities, and the establishment of the Office would provide the most effective mechanism for the Board to respond and address these issues.

Further, as suggested above, the establishment of the Office was not contemplated when the Board was developing its budget for 2010, as there was no particular need to enhance the Board's outreach functions at that time, given that the Board had not yet been vested with additional oversight authority over broker dealer auditors at that time.

⁴ These details vary from those provided as part of the PCAOB's 2011 Preliminary Budget, as the 2011 Preliminary Budget contemplated that OC would remain intact. The restructuring of OC, including these revised budgetary details, will be incorporated into the Board's final 2011 Budget.

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I appreciate your consideration of this request. Should you have any questions, please contact me, Phoebe Brown at (202) 207-9073, or Bill Wiggins, the PCAOB's Deputy Chief Administrative Officer, at (202) 207-9058.

Sincerely,



Daniel L. Goelzer
Acting Chairman

cc: James L. Kroeker, Chief Accountant

ATTACHMENT

Request to Establish a New PCAOB Office of Outreach and Small Business Liaison

	2010 Estimate ¹	2011 Preliminary Budget	Revised 2011 Budget ²
Office of Communications ³	\$2,292,338	\$1,799,443	\$0
Office of Outreach and Small Business Liaison	\$106,351	\$821,926	\$1,251,948
Office of Public Affairs ⁴	\$N/A	\$N/A	\$537,541
Office of Government Relations	\$N/A	\$N/A	\$428,621
Total	\$2,398,689	\$2,621,369	\$2,218,109

¹ As provided in the 2011 Preliminary Budget.

² Reflects the elimination of the Director of the Office of Communications position and the transfer of internal communications staff to the Office of Administration.

³ In 2010 Budget, the Forums on Auditing in the Small Business Environment were budgeted in the Office of Communications. In the 2011 Preliminary Budget, the Forums were budgeted in the Office of Outreach and Small Business Liaison.

⁴ Consulting fees related to the preparation of the 2010 Annual Report are budgeted in the Office of Public Affairs; however, these funds could be moved elsewhere at a later date.