January 15, 2013

The Honorable Elisse B. Walter  
Chair  
Securities and Exchange Commission  
100 F Street, NE  
Washington, DC 20549

Dear Chair Walter:

I am pleased to transmit to you a summary of the Public Company Accounting Oversight Board’s most recent performance review, titled Review of the PCAOB’s Procurement Operations. The Board’s Office of Internal Oversight and Performance Assurance ("IOPA") conducted this performance review.

The PCAOB’s 2011-2015 Strategic Plan, adopted in November 2011, reaffirmed the PCAOB’s commitment to carrying out the Board’s responsibilities in a manner that demonstrates careful stewardship over resources. The Plan identifies the enhancement of program and operational integrity as a priority. Consequently, the PCAOB’s Office of Administration has, over the past three years, initiated a number of actions — including adding staff and implementing new software — intended to enhance processes and controls over procurement.

IOPA has made certain recommendations regarding opportunities for improvement in the Office of Administration’s procurement process. The Office of Administration concurs with these recommendations and intends to implement them as it continues to enhance its processes.

The PCAOB intends to publish the attached summary on the PCAOB’s Web site on or about January 25, 2013. You and your staff should feel free to contact me, the Director of IOPA, Peter Schleck (202-207-9085), or the Chief Administrative Officer,
Darrell Pauley (202-207-9120), if you have any questions or would like any additional information about the review or the PCAOB’s procurement process more generally.

Sincerely,

[Signature]

James R. Doty
Chairman


cc: The Honorable Luis A. Aguilar
    The Honorable Troy A. Paredes
    The Honorable Daniel M. Gallagher
PERFORMANCE REVIEW

REVIEW OF THE PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD’S PROCUREMENT OPERATIONS
(IOPA-2013-001)

INTERNAL OVERSIGHT AND PERFORMANCE ASSURANCE
January 14, 2013

BACKGROUND AND OBJECTIVE

In its 2011 – 2015 Strategic Plan, the Public Company Accounting Oversight Board (PCAOB) reaffirms its commitment to carrying out the Board’s responsibilities in a manner that demonstrates careful stewardship over resources. The Plan identifies the enhancement of program and operational integrity as a priority, given the Board’s accountability to the Securities and Exchange Commission (SEC) and the public. Consequently, the Board’s Office of Administration (OA) has, over the past three years, initiated a number of actions – including adding staff and implementing new software – intended to enhance processes and controls over procurement. Analyses provided by OA indicated that the PCAOB procured $53 million and $51 million in goods and services in 2011 and 2010, respectively.

Internal Oversight and Performance Assurance (IOPA) undertook this review\(^1\) to determine whether the PCAOB’s procurement process is consistent with good business practices and the Strategic Plan.

IOPA’s review consisted of an analysis of the PCAOB’s existing procurement processes; limited transaction testing; interviews with OA procurement staff, procurement customers, and other PCAOB staff; and a survey of procurement best practices. We consulted a number of professional resources, including a framework for assessing acquisition functions developed by the U.S. Government Accountability Office (GAO), as well as research conducted by non-government entities.

\(^1\) 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 full report includes a detailed discussion of the review objective, scope, and methodology.
RESULTS IN BRIEF

During 2012, OA undertook a significant effort to catalog improvements to its procurement function and to develop appropriate corrective action plans that were underway at the time of our review. IOPA’s review also disclosed opportunities for improvement that could make procurement processes at the PCAOB more consistent with best practices. In this regard, procurement customers with whom we spoke expressed a desire for more streamlined purchase approvals, as well as additional definition regarding roles and responsibilities among OA’s procurement staff, the Office of General Counsel (OGC), and the Finance Office. The need for certain technology upgrades, including a contract database, was also noted. These issues are, to some degree, understandable given the PCAOB’s rapid growth since its inception and the relative newness of aspects of the procurement process. A centralized procurement function was formalized as recently as 2010 with the hiring of a procurement manager and a new automated system for generating purchase orders was implemented in 2011.

Based on our review, IOPA concluded that OA should continue its ongoing efforts to enhance the stature and effectiveness of the procurement function. In an August 15, 2012 memorandum to the PCAOB’s Division Directors, OA described recently-completed and planned enhancements to procurement at the PCAOB. The memorandum described changes to:

- Staffing, including the planned addition of a procurement officer;

- Process, including shortened approval routes within the automated procurement system for some types of purchases; the production of monthly reports to divisions/offices; and the ongoing development of an automated contract repository; and

- Roles and responsibilities, including the planned establishment of Division liaisons to help formalize and routinize – across the PCAOB – certain procurement functions, including the management of contract performance and division procurement budgets.

In January 2012, OA also developed, for its internal use, a list of 36 specific action items to facilitate further strengthening of the procurement function. IOPA made recommendations for OA to consider as it implements these changes. The Chief Administrative Officer (CAO) supported our recommendations and committed to addressing them by June 30, 2013.