January 13, 2015

The Honorable Mary Jo White  
Chair  
U.S. 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 most recent performance review, titled Review of Facilities Management at the Public Company Accounting Oversight Board. 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 determine whether the PCAOB has processes in place to assure space requirements are met efficiently and effectively. IOPA concluded that management of the PCAOB’s space requirements can be improved. The Chief Administrative Officer agreed with IOPA’s recommendations.

The Board intends to publish the attached summary on the PCAOB’s Web site on or about January 23, 2015. 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


cc: The Honorable Luis A. Aguilar  
The Honorable Daniel M. Gallagher  
The Honorable Kara M. Stein  
The Honorable Michael S. Piwowar
BACKGROUND AND OBJECTIVE

Section 101 of the Sarbanes-Oxley Act of 2002 established the Public Company Accounting Oversight Board (PCAOB) and, among other provisions, empowered the Board to:

- Conduct its operations and maintain offices in any State; and
- Lease, purchase, accept gifts or donations of or otherwise acquire, improve, use, sell, exchange, or convey, all of or an interest in any property, wherever situated.

The PCAOB has offices in 16 U.S. cities. For nine of these locations, the Board is a party to long-term leases, including a 15-year agreement, signed in 2011 and effective as of 2013, for about 144,000 square feet in the Washington, DC headquarters. The remaining leases range from about 12,000 square feet in Irvine, California to about 42,000 square feet in New York.¹ The PCAOB also maintains “satellite” locations in seven cities that are leased on an annual basis. As of March 2014, monthly costs for all 16 facilities – including rent, operating expenses, and real estate taxes – totaled about $1.4 million. In 2014, facilities management was the PCAOB’s third-largest program area, with planned expenditures of about $25 million, or 10 percent of the PCAOB’s total budget.

Management of PCAOB facilities is the responsibility of the Facilities Officer within the Office of Administration (OA). The facilities staff also includes three other full-time employees and four additional full-time equivalents provided via contract. The Facilities Officer works closely

¹ As of September 30, 2014, the PCAOB leased space on two separate floors in New York, totaling 38,020 square feet. As of November 30, 2014, space on only one floor, totaling 41,900 square feet, will be leased.
with the Office of General Counsel (OGC), OA’s procurement and finance offices, and division directors in carrying out his responsibilities. Also, OA uses outside consultants to provide real estate and project management expertise as needed.

PCAOB facilities accommodate about 800 employees, including about 500 in the Division of Registration and Inspections (DRI). A large majority of DRI staff members spend considerable amounts of time away from their home offices inspecting registered accounting firms. Many also participate in DRI’s work from home program, which allows them to work remotely up to two days per week.

Given the PCAOB’s far-reaching footprint, the budgetary significance of its offices and facilities, and the mobile nature of the PCAOB workforce, the Office of Internal Oversight and Performance Assurance (IOPA) initiated a review to determine whether the PCAOB has processes in place to assure space requirements are met efficiently and effectively.\(^2\)/\(^3\)

**RESULTS IN BRIEF**

Management of the PCAOB’s space requirements can be improved. Data developed by DRI in late 2012 and early 2013 suggest that, on average, less than 50 percent of DRI’s offices and cubicles are utilized on a given day. Even so, managers of some DRI locations expressed concern about “running out of chairs” because, at those sites, the number of employees was approaching the number of available desks. Separately, concerns about cost and requirements related to the build-out of newly acquired space, and the renovation of existing space, in the Washington, DC headquarters have delayed construction by nearly two years. Meanwhile, OA estimated that the renovation project would exceed a $10.2 million tenant improvement allowance provided by the landlord by $5 million, or nearly 50 percent. OA’s original intent was to pay all costs using the allowance.

To their credit, the Facilities Officer and the Director of DRI have embraced certain trends in space utilization, including greater use of flexible and collaborative space, work from home and, to some degree, hoteling and office sharing. However, the organization as a whole has been slow to define its space requirements, analyze its utilization of space, and use available data to

\(^2\) 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.

\(^3\) During this review, issues came to our attention regarding printer management. IOPA issued a separate report, addressed to the Director, Office of Information Technology, on those issues.
increase efficiency. Efforts to roll out an organization-wide strategy for work from home have also been delayed, due to a lack of consensus among PCAOB division directors. While changes to the working environment can, after all, be highly controversial issues with the potential to distract from the larger mission of the PCAOB, best practices suggest that creative use of space presents opportunities to engage with staff and to seek solutions that benefit individuals as well as the organization.

In 2011, the Facilities Officer shared with IOPA his concerns about underutilized space in some PCAOB offices. He also shared with us, at that time, best practices that companies were using to address similar situations, including greater use of flexible space, reducing the amount of space per employee, and engaging outside consultants to help explore alternatives in space utilization and to more precisely determine space requirements. Had the PCAOB committed to such analysis at the time, resulting information could have been used to inform lease negotiations for a number of office locations then ongoing, including the negotiations for the renewal of the lease for the DC headquarters. Instead, however, the lease renewals were negotiated without benefit of this type of specialized analysis. Mid-2014, a consultant was engaged and is now working with senior PCAOB managers to develop data-driven priorities for space utilization.

By leveraging the usage data already collected by DRI and the expertise of the space management consultants lately engaged, the PCAOB still has the opportunity to make near-term reductions in leased space. In particular, leases for the Denver and Chicago field offices will expire in 2015 and 2017, respectively. Near-term plans may also include the conversion of the Charlotte office to permanent space.

Given the budgetary significance of the headquarters renovation, IOPA concluded that OA should also, at a minimum, determine whether options and scenarios developed with the consultant could be applied to this project. The project has been paused, and major construction efforts have not yet begun. The pause may provide an opportunity for OA to examine the newly developed data and analyses to determine whether cost-effective modifications to current plans for the DC renovation are feasible.

For the longer term, the routine collection and methodical analysis of data should form the basis for future decisions regarding leased and rented space. In our judgment, OA should develop a corporate strategy for maximizing the utility of PCAOB leased space and minimizing the PCAOB’s leased-space footprint.
PERFORMANCE REVIEW

The Board’s *Strategic Plan* 4/ emphasizes a commitment to protecting investors and serving the public interest in a manner that demonstrates careful stewardship over resources. The plan further stresses the relationship between stewardship of resources and:

- Workplace culture that promotes excellence, integrity, diversity, respect, fairness, accountability, and continuous learning, and

- Internal processes and systems in budgeting and internal control functions that are monitored and improved to maintain updated, sound financial and risk management principles.

Underutilized space in field offices – and leased but as yet unused space in headquarters – represent, at a minimum, a challenge to good stewardship and a risk to the reputation of the PCAOB.

Based on this review, IOPA made recommendations to the Chief Administrative Officer (CAO) intended to facilitate an aggressive approach to the efficient and effective use of PCAOB space. The CAO agreed with the recommendations.

---

4/ *Strategic Plan: Improving the Quality of the Audit for the Protection and Benefit of Investors 2013 – 2017*