
MEMORANDUM

September 28, 2006

To: Brian Cartwright
Conrad Hewitt
Diego Tomas Ruiz

From: Walter Stachnik



Re: Audit of Oversight of PCAOB (Audit No. 412)

Attached is our audit report on the oversight of the PCAOB. Your comments on the draft report have been incorporated as appropriate.

We would appreciate receiving any additional comments you have concerning this audit and the report. In particular, we would like to know whether you found the audit useful. We also welcome any suggestions from you concerning how we could improve future audits.

The courtesy and cooperation of you and your staff during this audit are appreciated.

Attachment

cc: Chairman Cox
Commissioner Atkins
Commissioner Campos
Commissioner Nazareth
Commissioner Casey
Corey Booth
Bob Burns
Ben Cohen
Richard Hillman
Richard Humes
Joan McKown
Meridith Mitchell
Nancy Morris
Zoe-Vonna Palmrose
Darlene Pryor
Lori Richards
Linda Thomsen
Peter Uhlmann
John Walsh
Other staff who participated in the audit

OVERSIGHT OF PCAOB

EXECUTIVE SUMMARY

We reviewed the Commission's oversight of the Public Company Accounting Oversight Board (PCAOB or the Board), which was created by the Sarbanes-Oxley Act (SOX or the Act) of 2002. Our recommendations concern the Commission having the PCAOB seek reports on the Board's internal controls and compliance with laws and regulations; oversight of the PCAOB's human capital and disaster contingency planning; policies and procedures for certain Commission responsibilities under SOX; timely Commission review of proposed PCAOB rules; documentation of the Commission review of PCAOB rules; and possible delegations of authority within the Commission.

Commission management generally concurred with our recommendations. Their written comments are attached in the Appendix.

OBJECTIVES, SCOPE, AND METHODOLOGY

Our objective was to determine what improvements could be made to the Commission's oversight of the PCAOB. To help identify possible improvements, we evaluated the Commission's compliance with the oversight requirements in the Act. We also evaluated implementation of the recommendations in the Government Accountability Office's (GAO) report (number 03-339, dated December 2002) on the selection process for Board members.

Our audit scope included the significant responsibilities assigned to the Commission in Title I of SOX including but not limited to Section 107 of Title I (Commission Oversight of the Board). We did not audit the PCAOB's operations. Also, we did not review Commission staff interpretive guidance given to the PCAOB.

We could not evaluate the implementation of certain Commission policies and procedures (e.g., appeals of disciplinary actions) because the PCAOB was created relatively recently. Instead, in these instances, we considered whether the Commission's policies and procedures appeared to be reasonably designed.

Our methodology included interviews of Commission staff, Commissioners, and PCAOB senior staff, and review of supporting documentation regarding Commission oversight, among other procedures.

The audit was performed from September 2005 to July 2006. We conducted this performance audit in accordance with Generally Accepted Government Auditing

Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence that provides a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

BACKGROUND

General Information

The Act (Public Law 107-204) was enacted in July 2002 in response to numerous financial-related scandals involving public companies (*e.g.*, Enron and WorldCom) and their auditors (*e.g.*, Arthur Andersen). Among other reforms, the Act established the PCAOB as a nonprofit corporation. Pursuant to the Act (Section 101(d)), the Commission determined that the PCAOB was organized and had the capacity to carry out its responsibilities in April 2003.

Prior to the Board's establishment, the American Institute of Certified Public Accountants (AICPA) issued auditing standards for financial audits of public companies. In addition, the Public Oversight Board oversaw a voluntary peer review, self-regulation program for accounting firms.

Certain roles of the states (*e.g.*, licensing) and the Commission (*e.g.*, conducting investigations of accountants' violations of the securities laws and bringing disciplinary actions against accountants) vis-à-vis accountants were not changed by the Act. However, the Commission now has oversight of the PCAOB, and the PCAOB coordinates its enforcement efforts with the Commission.

The PCAOB's statutory mission is to "protect the interests of investors and further the public interest in the preparation of informative, accurate, and independent audit reports for companies the securities of which are sold to, and held by and for, public investors" (Section 101(a) of the Act). The Act requires that accounting firms be registered with the PCAOB, if they "prepare or issue, or participate in the preparation or issuance of, any audit report with respect to any issuer" (as defined in Section 3 of the Exchange Act of 1934).

Within the Commission, the Office of the Chief Accountant (OCA) has primary oversight responsibility for the PCAOB. Numerous other Commission offices also have roles, including the Office of the Executive Director (OED), the Office of the General Counsel (OGC), the Office of Information Technology (OIT), and the Office of Compliance Inspections and Examinations (OCIE).

Budgeting and Funding

The PCAOB is required to establish a budget (Section 101(c)(7) of the Act), which is subject to Commission approval (Section 109(b) of the Act). OCA, OED, and OIT staff review the proposed budget, in consultation with PCAOB staff. The Commissioners also may discuss the proposed budget with Board members. The staff then recommends to the Commission whether to approve the PCAOB's budget.

The Commission recently approved a rule (Release 33-8724, dated July 2006) to improve the budget review and approval process. The rule established, among other things, timeframes for completing certain milestones.

The PCAOB currently has approximately 450 staff, and its calendar year 2006 approved budget is approximately \$131 million. The Board's headquarters is in Washington, D.C., with seven field offices throughout the United States and an information technology center in Virginia. The Board is primarily funded through an accounting support fee assessed annually on public companies (issuers).

Registration

Section 102 of the Act requires public accounting firms to register with the PCAOB if they perform financial statement audits of issuers. The registration process includes the submission of an application form. According to the PCAOB, as of August 10, 2006, 1,690 public accounting firms were registered with the PCAOB.

Rule Making

Section 103 of the Act empowers the PCAOB to establish auditing, quality control, and independence standards and rules¹ for registered firms. To implement other aspects of the Act (e.g., its investigative authority), the PCAOB has established bylaws and rules for its authorities (including a code of ethics for the Board).

Within the Commission, OCA is primarily responsible for reviewing the Board's proposed rules. During the PCAOB's rulemaking, OCA staff provide input to the PCAOB staff. OCA staff then recommends to the Commission whether to approve the proposed rule.

Except for the initial and transitional standards, all PCAOB rules must be approved by the Commission (Section 107(b)(2) of the Act). Section 107(b)(3) of the Act states that "The Commission shall approve a proposed rule, if it finds that the rule is consistent with the requirements of this Act and the securities laws, or is necessary or appropriate in the public interest or for the protection of investors." As of July 2006, 19 rules had been approved by the Commission.

Inspections and Investigations

According to Section 104(a), the PCAOB conducts inspections of registered accounting firms to determine whether they are in compliance with the Act, the Board's rules, Commission rules, or professional standards when performing audits, issuing audit reports, and related matters involving issuers.

Based on the Board's findings, the inspected firms may take corrective actions to improve their compliance.

According to Section 104(b)(1)(A) of the Act, firms that regularly audit more than 100 issuers must be inspected annually. According to the PCAOB's 2005 annual report, nine accounting firms were in this category as of December 2005.

According to Section 104(b)(1)(B) of the Act, all other registered firms must be inspected at least once every three years. Almost 1,680 firms are in this category.

¹ Throughout the remainder of this audit report, the term rules includes standards.

However, Section 104(b)(2) of the Act allows the PCAOB to alter these requirements if alternative inspection schedules are consistent with the purposes of the Act, the public interest, and the protection of investors.

As discussed in the findings below, registered accounting firms may appeal the Board's inspection findings to the Commission. These appeals can relate to whether a deficiency actually exists and/or whether corrective actions have been adequately implemented (Section 104(h)(1) of the Act). OCA and other offices and divisions will review these appeals and make appropriate recommendations to the Commission. OCA indicated that no appeals had been filed as of July 2006.

Section 105 of the Act gives the PCAOB the authority to conduct investigations and disciplinary proceedings of registrants when rule violations may have occurred. The Act describes the PCAOB's ability to obtain testimony and document production, among other topics. According to the PCAOB's website (www.pcaobus.org), the Board had filed five disciplinary proceedings as of July 2006.

Pursuant to Section 107(c) of the Act, the respondent may appeal an adverse PCAOB decision in a disciplinary proceeding to the Commission. OGC staff would consider these appeals and make a recommendation to the Commission. OGC indicated that no appeals had been filed as of July 2006.

Other Oversight Issues

As discussed below, the Commission appoints Board members (Section 101(e)(4) of the Act). First, the Commissioners nominate possible candidates. The Chairman's Office, with OGC's assistance, will coordinate the background investigation (if applicable), and additional vetting of candidates. The Commissioners then interview prospective candidates and eventually vote on the Board members, including the Board's Chairman.

Section 107(a) of the Act gives the Commission the authority to conduct inspections of the PCAOB. OCIE staff conduct Board inspections in consultation with OCA. The Commission approves the final inspection report before it is issued to the PCAOB.

In May 2006, OCIE's initial inspection report was approved by the Commission. The inspection covered the PCAOB's registration process, and the billing and collection processes for the accounting support fee.

AUDIT RESULTS

We found that the Commission's oversight of the PCAOB can be improved. Our specific findings and recommendations are described below.

APPOINTMENT PROCESS

The PCAOB consists of five Board members, who each serve a five year term. Board members may only serve up to two terms. The terms of Board members are staggered so that one member's term expires each year. The Commission appoints the Board members and designates a Chairman, in consultation with the Chairman of the Federal Reserve and the Secretary of the Treasury.

Section 101(e)(4)(A) of the Act required the initial Board members to be appointed within ninety days after the passage of the Act. The Commission complied with this requirement in October 2002. However, the selection process for the initial appointments lacked adequate policies and procedures. Also, the urgency to appoint the initial Board members contributed to problems with the selection process.

Subsequently, GAO reviewed the selection process (Report No. 03-339) and recommended the following steps to the Commission:

- “reach agreement and document the process to be followed, the sequence and timing of key steps, and the roles to be played by the Commission and the staff in the selection and vetting of candidates;
- develop agreed-upon, detailed selection criteria for PCAOB members and the chairman that fully embrace the principles articulated in the Sarbanes-Oxley Act of 2002;
- develop a vetting process that ensures that before an applicant is brought to the Commission for serious consideration, certain minimum background and reference checks are performed to ensure that the individual has no potential legal or ethical impairments and ensure that the vetting process is completed before the Commission votes to appoint members to the PCAOB;
- determine what candidate information should be documented, analyzed, and shared among the Commission and staff.”

In November 2005, the Commission approved new policies and procedures for the nomination of Board members. Our review of the new policies and procedures indicated that the Commission complied with the GAO recommendations.

In June 2006, the Commission announced the appointment of a new PCAOB Chairman and the re-appointment of a Board member. We reviewed the appointment of these two positions, and found that the new procedures were properly implemented. Accordingly, we are not making a recommendation concerning this issue.

AUDIT REPORTS

The PCAOB prepares annual financial statements, which are audited by an independent public accountant not registered with the Board. However, the PCAOB

does not engage their auditor to report on its internal controls² related to financial reporting and on its compliance with applicable laws and regulations (e.g., PCAOB Bylaws). Reports on internal controls and compliance could help the Commission enhance its oversight and provide a reasonable assurance that the Board's controls and compliance were adequate.

Commission staff conducts inspections of the PCAOB, and the PCAOB has an internal audit office. Inspections and internal audits can provide additional assurance on the Board's internal controls and compliance. The Commission staff does not inspect all of the Board's operations every year, similar to its practice at other Self Regulatory Organizations. Also, the Commission has not evaluated the effectiveness of the PCAOB's internal audit office.

Recommendation A

OCA, in consultation with OED, should consider recommending to the Commission that the PCAOB engage their auditor to report on internal controls and compliance with laws and regulations.

HUMAN CAPITAL AND DISASTER CONTINGENCY PLANS

According to OED, it discussed the PCAOB's human resource strategy with the PCAOB. OED indicated that the Board's strategy was reasonable, but it received little documentation from the Board. Thus, we could not assess the adequacy of the Commission's oversight.

OED also indicated that once the PCAOB's strategic plan is finalized, they might recommend that the PCAOB develop a human capital plan. A human capital plan helps an organization determine the knowledge, skills, and abilities that its employees need, based on the strategic direction of the organization. As a result, an organization can identify any gaps that it needs to address. In addition, the plan helps recruitment and employee retention efforts.

Recommendation B

OED should ensure that it adequately documents future reviews of the PCAOB's human resource strategy and the human capital plan (e.g., based on Federal Human Capital standards), if applicable.

The Board is developing a disaster contingency plan. According to OCA, the plan should address the Board's ability to resume operations (e.g., data backup of inspection and investigation records) and provide the necessary guidance to accounting firms (e.g., loss of issuer records), within a few days of a terrorist act or natural disaster.

² Pursuant to the Commission Order approving the PCAOB's 2005 budget, the PCAOB was required to perform a self-assessment on its internal controls, and develop a long range strategic plan for its operations and budget.

Recommendation C

OCA, in consultation with OED and OIT, should review (*e.g.*, based on Federal Continuity of Operations Plans) the Board's disaster contingency plan when it is completed. They should provide comments to the Board and the Commission, as appropriate.

POLICIES AND PROCEDURES

Described below are oversight issues for which Commission policies and procedures are needed:

- Commission review of appeals from PCAOB inspections of accounting firms (see bottom of page 3). According to OCA, it has been working with the PCAOB to develop appropriate policies and procedures. OCA indicated that no appeals had been filed as of July 2006.
- Evaluation of PCAOB requests for subpoena authority during a Board investigation (Section 105(b)(2)(D) of the Act and Board Rule 5111). Issues needing resolution include whether the Commissioners will approve requests; how the request will be considered (at a closed Commission meeting, Executive Session meeting, or *seriatim*); and the role, if any, of the PCAOB in presenting the matter for consideration. As of July 2006, the PCAOB had not yet made any subpoena requests.
- Removal of Board members, censure of members or the Board, or relieving the Board of a responsibility (Section 107(d) of the Act).
- Investigations of alleged criminal or administrative misconduct by Board members or staff. The Commission does not have policies and procedures describing in what circumstances and to which offices the allegations should be reported (*e.g.*, OGC, the Division of Enforcement, or the Office of Inspector General), depending on the nature and subject (*i.e.*, a Board member or an employee) of the allegations.

Recommendation D

OCA, in consultation with OGC and other affected offices (*e.g.*, the Division of Enforcement and the Office of Inspector General) should develop policies and procedures for the issues described above. The policies and procedures should be submitted to the Chairman's Office for approval, as appropriate.

PROPOSED RULES

Timeframes

Section 107(b)(4) of the Act states that the timeframe for the Commission's consideration of proposed Board rules should comply with paragraphs (1) through (3) of Section 19(b) of the Securities Exchange Act of 1934. Section 19(b)(2) requires the Commission to approve a proposed rule (*i.e.*, issue an Order) or institute

proceedings to consider whether it should be disapproved within thirty-five days of the proposed rule's notice of publication in the Federal Register. However, this time period can be extended up to ninety days, if the Commission believes that the extension is appropriate and provides its rationale in the Federal Register notice, or if the PCAOB consents to a longer time period.

We reviewed fifteen PCAOB rules that had been approved by the Commission as of November 2005.³ Three rules were not approved within the required timeframe. However, these three rules were approved within one to four days after the required date.

The delay was caused by using the wrong date for monitoring the timeliness of the rules (the staff used the date of the Commission's vote, rather than the date of the Commission Order). The small delay did not cause any apparent harm.

Recommendation E

OGC should review this issue and provide guidance (*i.e.*, use the date the Commission Order is signed for monitoring compliance with the Act's timeliness requirement for consideration of proposed Board rules) to OCA, if appropriate.

Documentation

We selected a judgment sample of five of seventeen rules to evaluate the adequacy of the documentation maintained in OCA's official files. The files generally demonstrated that the staff performed a thorough review of the rules. However, documentation of the review could be improved (*e.g.*, the files lacked the signed Commission Order approving the rule). OCA has created a checklist to help ensure that the files are complete.

Recommendation F

OCA should modify their checklist to include a copy of the signed Order.

DELEGATIONS OF AUTHORITY

As stated in the Background, within the Commission, OCA has primary oversight responsibility for the PCAOB. However, the Commission has not formally delegated authority to OCA, so Commission approval is required for most oversight decisions.

As the Commission acquires more experience with PCAOB oversight, delegations may be appropriate (analogous to delegations granted to the Division of Market Regulation for oversight of the Self-Regulatory Organizations).

³ Seventeen rules were identified from the PCAOB's website. We excluded two rules. The Commission reviewed one of these rules on an accelerated basis (under Section 19(b)(3)(B) of the Exchange Act), while the other rule (Interim Professional Standards) was not subject to the review process (under Section 107(b)(2) of the Act).

Recommendation G

OCA, in consultation with OGC, should consider whether to request delegations of authority for PCAOB oversight. If delegations would improve oversight, OCA should prepare an action memorandum for Commission consideration of the delegations.

MEMORANDUM

September 22, 2006

TO: Walter Stachnik
Office of Inspector General

FROM: Conrad Hewitt 
Office of the Chief Accountant

RE: The Office of Inspector General's Review of the Commission's
Oversight of the Public Company Accounting Oversight Board

Introduction

Thank you for the opportunity to provide written comments on the Office of Inspector General's audit findings, conclusions and recommendations relating to your review of the Commission's oversight of the Public Company Accounting Oversight Board (PCAOB or the Board). We appreciate the hard work and cooperative efforts of your staff in performing this review.

As indicated in your report, the Office of the Chief Accountant (OCA) has played a significant role in the Commission's oversight of the PCAOB since the inception of the Board in 2002. OCA not only analyzes and comments on the PCAOB's professional standards and rules, we also work with the Commission's other offices and divisions to oversee virtually every aspect of the PCAOB's operations. For example, OCA teams with the Office of the Executive Director (OED) to review the PCAOB's annual budget and accounting support fee; we worked with the Office of Compliance Inspections and Examinations on the first examination of the PCAOB's processes and procedures; and we work with the Office of General Counsel (OGC) on various issues involving the Board's authority, such as issues related to the issuance of SEC subpoenas on behalf of the PCAOB.

Below are responses to the audit findings, conclusions and recommendations in your report that are addressed to the Office of the Chief Accountant. We understand that other offices and divisions may respond separately.

Audit Reports

This section of the report discusses the PCAOB's responsibility for preparing annual financial statements, which are audited by an independent public accountant not registered with the Board, and recommends that OCA consider recommending to the

Commission that the PCAOB engage its auditor to report on internal controls and compliance with laws and regulations. The audit findings suggest that these reports could help the Commission enhance its oversight and provide reasonable assurance that the Board's controls and compliance were adequate.

OCA previously has discussed with the PCAOB staff and with at least one current member of the Board the advantages of the PCAOB having its auditor report on the Board's internal control. The PCAOB has acknowledged the benefits of having the auditor of its financial statements also audit its internal control; however, certain issues have slowed its progress. Namely, because of the legal structure and mission of the Board, it is unclear what professional, governmental or regulatory standards would be used to evaluate the PCAOB's internal control. Similar issues would arise in identifying a standard to use for the Board's compliance with laws and regulations.

Nonetheless, during our review of the PCAOB's budget for 2007, we will continue to work with the PCAOB to consider the appropriate standards to be used in evaluating the PCAOB's internal control and compliance with laws and regulations and to encourage the Board to engage its auditors to report on these matters. In connection with the Commission's consideration of the PCAOB's budget, we will inform the Commission of the status of these efforts.

Human Capital and Disaster Contingency Plans

This section discusses the PCAOB's efforts to develop a human capital plan and a disaster contingency plan. A human capital plan helps an organization determine the knowledge, skills, and abilities that its employees need, based on the strategic direction of the organization. A disaster contingency plan addresses an organization's ability to resume operations and provide necessary guidance to accounting firms, within a few days of a terrorist act or natural disaster. The audit findings indicate that the PCAOB has a human capital plan, although it is inadequately documented, and is developing a disaster contingency plan.

The OIG's first recommendation in this section is that OED should establish policies and procedures to ensure that it adequately documents future reviews of the PCAOB's human capital plan. The second recommendation is that OCA, in consultation with OED and the Office of Information Technology, should review the Board's disaster contingency plan when it is completed and provide comments to the Board and the Commission, as appropriate. As part of the staff's review of the PCAOB's budget for 2007, we will request copies of the PCAOB's human capital plan and disaster contingency plan, if complete, and review those plans. If a plan is not complete or needs revision, we will discuss the relevant issues with the PCAOB staff and evaluate the plan and any additional resources needed to complete or revise the plan. As suggested in your recommendation, we will provide comments to the Commission and to the PCAOB as appropriate.

Policies and Procedures

This section describes areas of oversight in which Commission policies and procedures still are needed such as appeals of PCAOB inspection findings, PCAOB requests for subpoenas, removal or censure of Board members, and investigations of misconduct by Board members or staff. OIG recommends that OCA, in consultation with OGC and other affected offices, should develop policies and procedures for these areas.

The staff attempted to address some of these areas in the past. Soon after the Sarbanes-Oxley Act was enacted, the staff began drafting "Regulation PCAOB," which was intended to address a number of PCAOB oversight issues including, among other things, appeals of inspection reports. Due to a number of concerns, including the concern that we were attempting to address too many subject areas at one time, the proposed regulation did not progress. As a result, we have determined that we should address each of these areas separately. The staff began this process by drafting a proposed rule on the PCAOB budget approval process. This rule was adopted by the Commission on July 18, 2006. OCA intends to work with OGC and other affected offices to develop appropriate rules, policies or procedures for the remaining areas addressed in this recommendation.

Proposed Rules

The audit findings in this section indicate that, although the official files demonstrated that the staff performed a thorough review of the PCAOB's proposed rules, the documentation of the review could be improved by including a copy of the signed order in each file. The findings acknowledge that OCA has created a checklist to help ensure that its files are complete, and recommend that OCA modify its checklist to include a copy of the signed order for each rule approved by the Commission. We have modified our checklist to include a copy of the signed order and will obtain copies of previously signed orders to complete existing files.

Delegations of Authority

This section states that OCA has primary oversight responsibility for the PCAOB and suggests that, as the Commission acquires more experience with PCAOB oversight, delegations of authority to OCA may be appropriate. The findings indicate that delegations analogous to those granted to the Division of Market Regulation for oversight of the self-regulatory organizations may be appropriate. OIG recommends that OCA, in consultation with OGC, should consider whether to request such delegations of authority for PCAOB oversight. OIG further recommends that, if delegations would improve oversight, OCA should prepare an action memorandum for Commission consideration of the delegations.

OCA, in consultation with OGC, has considered in the past whether delegations of authority to OCA for certain oversight matters were appropriate. Based on the Commission's high interest in PCAOB activities and the fact that the PCAOB is still a

relatively new and unique organization, however, we have determined that no delegation is appropriate at this time. As we continue to draft and propose oversight rules in the future, we will consult with OGC to determine whether any delegations are appropriate and, if so, consider whether to include those delegations in the proposed rulemaking. Also, as we acquire more experience with PCAOB oversight, we will consider whether to request delegations of authority from the Commission for other matters relating to the Commission's oversight of the PCAOB.

Conclusion

Thank you again for the opportunity to respond to your audit findings, conclusions and recommendations on the Commission's oversight of the PCAOB. If you have any questions or would like to discuss our responses in more detail, please contact Dr. Zoe-Vonna Palmrose, Deputy Chief Accountant for Professional Practice, or Robert Burns, OCA's Chief Counsel.

MEMORANDUM

TO: Walter Stachnik, Inspector General

FROM: Diego T. Ruiz, Executive Director 

DATE: September 25, 2006

SUBJECT: Comments on Audit of Oversight of PCAOB (Audit No. 412)

Thank you for the opportunity to provide comments on your draft audit report on the Commission's oversight of the Public Company Accounting Oversight Board (PCAOB). It is very helpful to have an independent review of this important Commission function.

As you know, the Office of the Executive Director (OED) is one of the primary participants in the SEC staff's reviews of the PCAOB's budget and operations. OED plays no role in the Commission's review of the PCAOB's policy-related proposals and actions, such as its regulatory activity, inspection program, or enforcement efforts, except as those issues impact the PCAOB's budget planning.

In general, OED agrees with the Recommendations in your report and plans to incorporate them into its review of the PCAOB's 2007 budget proposals. Our specific comments are as follows:

- OED agrees in principle with your Recommendation A, which states that the Board should engage their auditor to report on the Board's internal controls and compliance with laws and regulations. Such reviews would indeed provide useful information to the SEC during its evaluations of the PCAOB budget and operations. However, as OCA points out in its comments on your audit report, it is not clear which standards the PCAOB should use in such reviews, given its unique structure. During the course of the staff evaluation of the Board's 2007 budget, OED and OCA will work with the PCAOB to consider the appropriate standards and encourage such reviews, and the two offices will inform the Commission of these efforts as appropriate.
- Human capital planning is indeed an important strategic focus for the PCAOB, especially because its workforce is such a large portion of the PCAOB's budget and is so critical to the Board's ability to fulfill its mission. As suggested in your Recommendation B, OED and OCA will seek additional documentation from the PCAOB regarding its human capital planning during the upcoming review of its 2007 budget. In addition, the two offices will encourage the PCAOB to develop a formal human capital plan once its strategic plan has been completed.
- You correctly identify disaster contingency planning as an important area for the PCAOB to invest its energies and for the SEC to review. Together with OCA, OED will discuss these planning efforts with PCAOB staff, review its final plan, and provide comments to the Board and Commission as appropriate.

Again, thank you for the opportunity to comment upon your draft audit report. If you have any questions, please feel free to contact Ken Johnson, the Acting Chief Management and Program Analyst.