



Highlights of [GAO-03-339](#), a report to the Chairman, Senate Banking, Housing, and Urban Affairs Committee; Ranking Minority Member, House Energy and Commerce Committee; and another House requester

## Why GAO Did This Study

The Sarbanes-Oxley Act of 2002 created, among other things, the Public Company Accounting Oversight Board (PCAOB) to oversee audits of public companies. A divided Securities and Exchange Commission (SEC) appointed the first PCAOB on October 25, 2002. Amid allegations that the SEC Chairman withheld relevant information from the other Commissioners concerning the suitability of the newly appointed PCAOB chairman, GAO was asked to examine SEC's selection process; determine whether the SEC Chairman withheld information from other Commissioners; determine what vetting of candidates took place; and identify what actions led to breakdowns in the process.

## What GAO Recommends

GAO recommends that SEC define and reach agreement on a documented PCAOB appointment process; set selection criteria; develop a vetting process and complete necessary reviews before appointments; and make greater use of available technology to do background checks on candidates. While no written comments were provided, SEC generally agreed with the report's recommendations.

[www.gao.gov/cgi-bin/getrpt?GAO-03-339](http://www.gao.gov/cgi-bin/getrpt?GAO-03-339).

To view the full report, including the scope and methodology, click on the link above. For more information, contact Richard J. Hillman at (202) 512-8678 or [hillmanr@gao.gov](mailto:hillmanr@gao.gov).

# SECURITIES AND EXCHANGE COMMISSION

## Actions Needed to Improve Public Company Accounting Oversight Board Selection Process

### What GAO Found

SEC faced significant challenges in vetting and appointing five members to the newly created PCAOB within 90 days. The SEC Chairman, who had overall responsibility for the appointment process, initially, envisioned a process primarily driven by SEC staff. He asked the Chief Accountant to take the lead in selecting and the General Counsel in vetting PCAOB members. However, this approach was not fully understood or endorsed by the other Commissioners. The overall process that emerged was neither consistent nor effective and changed and evolved over time.

Several factors contributed to the eventual breakdown of SEC's selection and vetting process, including the inability of the Commissioners to reach agreement on a formalized process that defined the roles to be played by the Commissioners and staff; insufficient communication between SEC staff and Commissioners; and the lack of articulated selection criteria beyond general criteria provided by the act. Finally, inability to choose a final slate of candidates until the eve of the Commission's vote resulted in the appointment of PCAOB members who had not been fully vetted.

On the day of the October 25 vote, the Chief Accountant became aware of information concerning Judge William Webster, who was slated to be the chairman of the PCAOB, and his role as the former chairman of the audit committee of a small company—U.S. Technologies, Inc. However, based on his review of available information, his experience as an auditor, Judge Webster's prominence and reputation, and the fact that additional vetting would occur post-appointment, the Chief Accountant deemed that the information would not affect Judge Webster's nomination. He thus decided not to share the information concerning Judge Webster's role at U.S. Technologies with the SEC Chairman, the other Commissioners, or the General Counsel.

As Judge Webster's appointment illustrates, the five individuals chosen for the PCAOB were not systematically vetted prior to appointment. After the selection process broke down in early October when the Commission was unable to agree on a consensus candidate for chairman, the General Counsel was forced to initiate the vetting process on a post-appointment basis, a fact which the Commission was made aware of before the October 25 vote. At the time of our review, the vetting process was still ongoing.