

February 26, 2007

Mr. Christopher Cox, Chairman
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549-9303

Re: File No. S7-24-06

FILED ELECTRONICALLY (rule-comments@sec.gov)

Dear Chairman Cox:



We appreciate the opportunity to submit our comments regarding the Securities and Exchange Commission's ("the SEC" or Commission) "Management's Report on Internal Control Over Financial Reporting," Subject File No. S7-24-06 (referred to variously as the "Interpretive Guidance" or "Proposed Rule," as appropriate).

Computer Sciences Corporation (CSC) has actively supported the efforts of the President, Congress, NYSE and SEC to enhance investor confidence, corporate governance, financial reporting and the capital markets. While management's representations and auditors' reports on internal control over financial reporting may help improve investor confidence, it is encouraging to note the developing attention toward balancing the cost with resulting benefits.

The costs borne by companies in reporting on internal control over financial reporting significantly exceeded all estimates and remains a matter of great importance to the U.S. economy, capital markets, investors and overall business climate. Costs, under the current approach, have been recognized as disproportionate to the benefits. Some companies have, in fact, de-listed their securities, delayed offerings, or turned to markets outside the U.S., particularly foreign corporations, to avoid these costs. In fact, this may be one of the reasons for the dramatic increase in private equity buyouts of public companies.

The vast majority of both issuer and auditor efforts and costs arise from the documentation, testing and evaluation of voluminous transaction controls, despite the fact that these controls are least effective in addressing the issues which led to the types of financial improprieties witnessed at Enron, World Com, Tyco and others (i.e., fraud, improper financial reporting, conflicts of interest and management override of internal controls).

We commend the Commission on the Interpretive Guidance; the Proposed Rule eliminating the auditor opinion on management's assessment; and the Proposed Rule assuring management that assessments performed consistent with the Interpretive Guidance will be deemed to comply with SEC requirements. The Proposed Rule eliminating the auditor opinion on management's assessment should reduce unnecessary effort while better communicating the scope and results of the auditors' procedures. It will also de-couple management's assessment from the audit. This should afford management more flexibility in

its approach, resulting in greater efficiency and lower compliance costs without diminishing the benefit to investors.

We also commend the Commission's decision to adopt a principles-based, rather than rules-based, approach. This will enable greater flexibility and scalability and more readily facilitate application to all issuers. Finally, we fully support the Commission on their decision to permit issuers to either align their assessment with the Interpretive Guidance or to retain their existing approach. This should minimize disruption in implementation while optimizing potential efficiencies available pursuant to the Interpretive Guidance. We think the following areas of the Interpretive Guidance are particularly important:

- Encouraging a top-down, risk based approach with a focus on the risk of material misstatement;
- Eliminating the auditors' opinion on management's assessment;
- Acknowledging management's approach to its assessment may differ substantially from the auditor's approach;
- Recognizing entity-level or company-level controls may be sufficient to address the risk of material misstatement of a particular financial reporting element, evaluation of process-level controls may be unnecessary;
- Incorporating management monitoring;
- Clarifying the definitions of significant and material weaknesses; and
- Endorsing flexibility in management's approach to documenting its assessment based on risk.

While implementation of the Interpretive Guidance should result in a significant reduction in compliance costs, we believe further efficiencies are possible and, in fact, necessary to maintain the competitiveness of U.S. capital markets. We recommend the Commission incorporate the following clarifications into the Interpretive Guidance:

- Clarify and provide further guidance and examples of entity-level and company-level controls which may be relied upon in place of process-level controls;
- Encourage the "base line" testing approach for IT general controls;
- Provide examples of low-risk areas and the related type and extent of testing which might be applicable based on varying risk levels;
- Provide examples of management monitoring controls which may be relied upon in place of process-level controls (consider incorporating the results of the COSO Project Task Force on monitoring which should be available in February 2007);
- Permit multi-year rotation of testing of medium risk and low-risk areas;
- Continue to refine the definition of significant deficiencies to focus on truly significant matters; and
- Incorporate cost benefit considerations in evaluating and remediating deficiencies.

These suggestions are more fully discussed in the attached Exhibit I. We have also included additional recommendations in our detailed responses to the Commission's Request for Comments which are set forth in Exhibit I.

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Finally, it is equally, if not more, critical PCAOB Audit Standard No. 2 incorporate the changes we have recommended to the PCAOB in order to fully realize available efficiencies and substantial reductions in external audit fees and issuer compliance costs. We have enclosed our comment letter to the PCAOB regarding the proposed revised audit standard for internal control over financial reporting and amendments to related standards for your reference.

We appreciate the opportunity to express our views and offer our suggestions. We remain committed to working with the Commission, the PCAOB, other issuers, investors and others on refinements and improvements which will enhance the effectiveness and significantly reduce the cost of these reporting requirements. We would be pleased to discuss at your convenience our recommendations. If you have any questions or would like to further discuss our comments, please feel free to contact Dennis Dooley at (248) 372-3306 or me at (310) 615-4821.

Sincerely,

Michael E. Keane
Vice President and Chief Financial Officer

cc:

SEC

The Honorable Paul S. Atkins, Commissioner
The Honorable Roel C. Campos, Commissioner
The Honorable Kathleen L. Casey, Commissioner
The Honorable Annette L. Nazareth, Commissioner

PCAOB

Mr. Mark W. Olson, Chairman
Ms. Kayla J. Gillan, PCAOB Board Member
Mr. Daniel L. Goelzer, PCAOB Board Member
Mr. Willis D. Gradison, PCAOB Board Member
Mr. Charles D. Neimeier, PCAOB Board Member
Mr. Thomas Ray, Chief Auditor and Director of Professional Services
Ms. Laura Phillips, Deputy Chief Auditor

Attachment: Letter to PCAOB dated February 26, 2007 Regarding the Proposed Auditing Standard

**Management's Report on Internal Control Over Financial Reporting
(Interpretive Guidance and Proposed Rules)
Request for Comments**

Proposed Interpretive Guidance

1. Will the proposed interpretive guidance be helpful to management in completing its annual evaluation process? Does the proposed guidance allow for management to conduct an efficient and effective evaluation? If not, why not?

The Interpretive Guidance will greatly assist management in refining its assessment process to leverage benefits of a top-down, risk based approach, including reliance on management oversight, monitoring controls and testing. Without question, the top-down, risk-based approach will better focus attention on the most important controls. In addition, we recommend the Commission specifically emphasize the critical importance of entity-level and company-level controls, programs and controls over management override, the overall control environment and the period-end financial reporting process, in preventing and detecting financial statement misstatements. In addition to the elements identified in the Interpretive Guidance, the discussion of controls over the period-end reporting process should also address the following:

- The process for monitoring financial accounting and reporting requirements in accordance with GAAP, as well as SEC requirements,
- Account reconciliations,
- Review of operating results,
- Accounting and reporting of unusual or non-recurring transactions,
- Significant and complex or subjective estimates, and
- Accounting and reporting for related party transactions.

These are the controls which result in the most pronounced instances of fraudulent financial reporting and malfeasance. Testing and evaluation of controls in these areas is far more effective in preventing material misstatements and fraud than extensive testing of detailed low-risk, process-level transaction controls.

2. Are there particular areas within the proposed interpretive guidance where further clarification is needed? If yes, what clarification is necessary?

We recommend the Commission provide examples of entity-level and company-level controls which may be relied upon in place of process-level controls. We also suggest the Commission provide examples of low-risk process areas and the related type and extent of testing which might be applicable based on varying risk levels. In addition, examples of management monitoring controls which may be relied upon in place of process-level controls would be of substantial benefit, particularly to non-accelerated issuers who will be implementing these requirements for the first time. The Commission might wish to incorporate the results of the COSO Project Task Force study of monitoring processes and controls. We understand this study should be available in February 2007.

The Commission may wish to provide further examples and guidance of material weaknesses indicative of potentially material misstatements which may result in restatement of financial statements. In many cases, auditors have only identified material weaknesses at the time financial statements are restated. However, if auditors focus on testing and evaluation of entity-level and company-level controls, programs and controls over management override, the overall control environment and the period-end reporting process, in preventing financial statement misstatements, material weaknesses will be identified on a more timely basis.

3. Are there aspects of management's annual evaluation process that have not been addressed by the proposed interpretive guidance that commenters believe should be addressed by the Commission? If so, what are those areas and what type of guidance would be beneficial?

We recommend the Commission include the following additional matters in its Interpretive Guidance:

Scope of Management's Testing for Multiple Locations

We recommend the Commission provide the following guidance regarding the approach for determining the scope of testing where issuers have multiple locations to further encourage a risk-based approach to determining the scope and nature, timing and extent of tests. Further, we recommend the Interpretive Guidance incorporate rotation of testing, as well as reliance on higher level controls:

To achieve testing of all significant process-level, transaction controls over multiple years, process controls for medium-risk and low-risk business unit locations and account balances would be subject to evaluation on a rotation basis (e.g., once every three years).

- Walkthrough procedures might be performed for the account balances and related classes of transactions which are subject to review of process controls in any given year (as set forth in the rotation plan).
- Issuers should be able to rely on supervisory activities. Most large issuers have multiple layers of review to determine whether controls are operating effectively and financial reporting is accurate and complete.

During the course of previous Roundtable discussions, the Comptroller General of the United States indicated a risk-based audit approach has been in use in Government Accountability Office audits of Federal government agencies for some time. The risk-based approach is used in tandem with a multi-year rotation plan to determine all areas are subject to audit testing over a multi-year time frame. The approach described above parallels the risk-based rotation approach employed by the GAO.

We further recommend the Commission endorse issuer monitoring controls in place of separate evaluation type testing of controls. Monitoring activities could include a wide assortment of activities, ranging from management oversight and testing of controls themselves to detailed review of the results of operations in combination with testing of controls over the period-end reporting process. Such activities might also include management's operating procedures and supervisory activities, especially in areas where measurements require greater judgment and have potentially greater impact on performance and reported results.

In addition, commercial software packages have been developed which enable issuers to monitor user access privileges and security to applications, operating system security configurations and other IT general controls, segregation of duties and ongoing monitoring of application and transaction controls, as well as automating system and application user provisioning. The capabilities of these monitoring tools is evolving rapidly and will likely enable far greater automation not only of the issuer assessment process but of the underlying system of controls as well. These types of monitoring tools potentially improve the effectiveness of the system of controls, provide a more robust foundation for issuer reporting on controls, significantly reduce compliance costs and deliver operational benefits.

Evaluating and Remediating Deficiencies: Cost-Benefit Considerations

We recommend the Commission specifically acknowledge the appropriateness of cost-benefit considerations in evaluating and remediating deficiencies, including remediation of significant deficiencies. This is particularly important in view of the overly-broad definition of significant deficiencies (refer to our response to Question 7 of this section, "Proposed Interpretive Guidance").

IT Application Controls

The evaluation of IT application controls is an area in which significant efficiencies could be achieved. We were hopeful in year that two we would be able to apply a "base lining" approach in testing IT application controls. This is a long established, widely accepted practice used in audits of service providers under Statement on Auditing Standards No. 70 ("SAS 70 audits"). Under this approach, if IT application controls have been previously tested (either in conjunction with the initial system implementation or as a part of a subsequent audit), it would only be necessary to test changes in subsequent periods, assuming the auditor has satisfactorily tested IT general controls (including program change controls). The PCAOB's proposed audit standard would require the company to meet certain criteria to apply a "base lining" approach. These criteria require the issuer to

demonstrate there have been no changes, not only in the IT application control itself, but also in any other application controls, data files, tables, interfaces or related applications which could conceivably affect the IT application control. In most cases, satisfying these criteria would be far more arduous than retesting the controls. Moreover, we believe the criteria are not only impractical but also unnecessary since program change controls are already subject to testing in conjunction with tests of IT general controls. Many issuers have initiated programs to further centralize, standardize and automate their processes and related controls in an effort to reduce the cost of compliance with 404. As these issuers further automate their systems of controls, modifying these criteria to permit more wide-spread use of a “base lining” approach would provide a powerful means of reducing the cost of compliance.

4. Do the topics addressed in existing staff guidance (May 2005 Staff Guidance and Frequently Asked Questions revised October 6, 2004) continue to be relevant or should such guidance be retracted? If yes, which topics should be kept or retracted?

Yes, we believe the topics addressed in the May 2005 staff guidance continue to be relevant and should be retained.

5. Will the proposed guidance require unnecessary changes to evaluation processes that companies have already established? If yes, please describe.

We do not think the Interpretive Guidance will require any unnecessary changes to the evaluation processes companies have already established, particularly in view of the fact the Commission explicitly allows companies to either align their assessment with the Interpretive Guidance or to retain their existing approach. This should minimize any disruption in implementation while optimizing potential efficiencies available pursuant to the Interpretive Guidance.

6. Considering the PCAOB’s proposed new auditing standards, “An Audit of Internal Control Over Financial Reporting That Is Integrated with an Audit of Financial Statements” and “Considering and Using the Work of Others In an Audit,” are there any areas of incompatibility that limit the effectiveness or efficiency of an evaluation conducted in accordance with the proposed guidance? If so, what are those areas and how would you propose to resolve the incompatibility?

Management Monitoring Controls and Testing

We recommend the Commission clarify that management testing would not be deemed control self assessment testing which is generally performed by individuals responsible for the operation of a control. Rather, auditors should be permitted to rely upon management testing provided the auditor determines personnel performing such testing are sufficiently competent and objective (as required under the proposed audit standard, “Considering and Using the Work of Others in An Audit”). This would better align the Interpretive Guidance with the PCAOB proposed audit standard.

Strong Indicators of a Material Weakness

In order to align the Interpretive Guidance with the PCAOB proposed audit standards, we suggest the Commission's guidance include ineffective internal audit or risk management function as one of the "strong indicators of a material weakness" consistent with the PCAOB proposed audit standard ("An Audit of Internal Control Over Financial Reporting That Is Integrated with an Audit of Financial Statements"). In addition, the Commission should affirmatively acknowledge that an issuer may conclude that no deficiency exists despite the fact that one of the "strong indicators of a material weakness" is present. For example, generally we believe a material weakness exists where a control deficiency results in a restatement. However, there may be situations where a control deficiency existing in prior years resulted in a restatement of previously issued financial statements but the deficiency has long since been remediated. This change should allow for the appropriate use of greater judgment and should not result in inconsistency in practice.

7. Are there any definitions included in the proposed interpretive guidance that are confusing or inappropriate and how would change the definitions so identified?

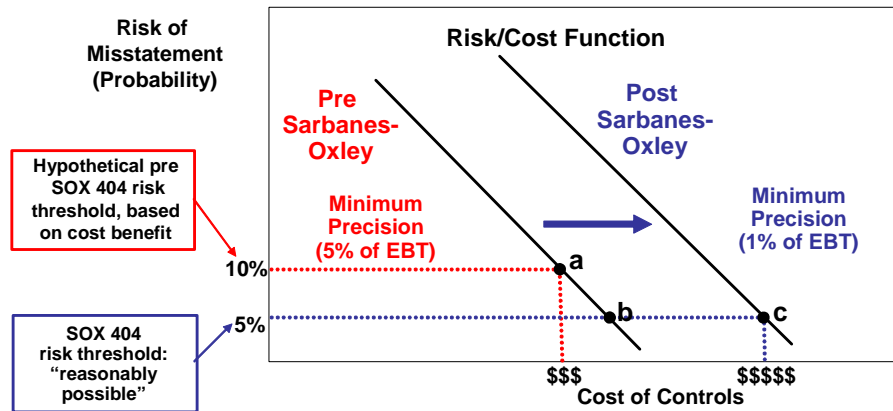
We do not believe the proposed changes to the definition of a significant deficiency will reduce effort devoted to identifying and analyzing deficiencies that do not present a reasonable possibility of financial statement misstatement because the definition remains overly broad. We suggest the Commission further refine the definition of significant deficiency to focus on truly significant matters. Although the Commission modified the definition to focus on "significant" matters, rather than "more than inconsequential" matters, and misstatements which are "reasonably possible," rather than "more than remote," we understand the profession intends to continue to interpret these parameters using the same quantitative thresholds: 1% for "significant" and 5% probability for "reasonably possible." This makes it difficult to distinguish more significant deficiencies from matters of far less importance. Moreover, the definition encompasses potential control deficiencies and misstatements which although possible are, in fact, neither likely nor truly significant.

As a result of the overly broad definition of significant deficiencies, the cost of implementing, maintaining, monitoring, evaluating and reporting on internal controls has fundamentally increased in two ways. First, Section 404 has brought about a material adverse shift in the financial reporting cost-benefit relationship by essentially requiring companies to detect significant rather than material misstatements. Second, the risk threshold encompasses any control deficiencies where potential misstatements are "reasonably possible".

The following chart, from our letter dated September 18, 2006, illustrates the impact of this definition on the cost of controls:

Sarbanes-Oxley Impact on the Cost of Controls

Costs increased from "a" to "b" due to the redefined level of tolerable risk ("reasonably possible"). Costs further increased to "c" to detect potential "significant" misstatements (1% of EBT), rather than material (5% of EBT) as under the FCPA.



Note: the profession has defined "reasonably possible" to be 5% (FAS No. 5) and "significant" to be 1% of EBT (20% of materiality, or 20% of 5% of EBT).

8. Will the guidance for disclosures about material weaknesses result in sufficient information to investors and, if not, how would you change the guidance?

Yes, the disclosures concerning material weaknesses should provide sufficient information to investors.

9. Should the guidance be issued as an interpretation or should it, or any part, be codified as a Commission rule?

We do not think issuance as a formal rule is necessary, since the existing rules under the Exchange Act, Rules 13a-15(c) and 15d-15(c), would be modified to explicitly acknowledge that an evaluation performed in accordance with the Interpretive Guidance satisfies SEC requirements.

10. Are there any considerations unique to the evaluation of ICFR by a foreign private issuer that should be addressed in the guidance? If yes, what are they?

No comment.

Proposed Rule Amendments

1. Should compliance with the proposed interpretive guidance, if issued in final form, be voluntary, as proposed, or mandatory?

We strongly agree with the Commission's proposal to issue the Interpretive Guidance as voluntary, rather than mandatory. This allows issuers to either align their assessment with the Interpretive Guidance or to retain their existing approach, provided this approach meets the requirements of the original rule. This should minimize disruption in implementation while optimizing potential efficiencies available to issuers through use of the Interpretive Guidance (refer to our response to Question 5 in the section "Proposed Interpretive Guidance" above).

2. Is it necessary or useful to amend the rules if the proposed guidance is issued in final form, or are rule revisions unnecessary?

We do not believe any rule amendments would be necessary other than amendments included in the Commission's Proposed Rules included in this Release.

3. Should the rules be amended in a different manner in view of the proposed interpretive guidance?

No, we agree with the proposed amendments to existing rules as set forth in the Proposed Rules.

4. Is it appropriate to provide the proposed assurance in Rules 13a-15 and 15d-15 that an evaluation conducted in accordance with the interpretive guidance will satisfy the evaluation requirement in the rules?

Yes, assurance that an evaluation conducted in accordance with the Interpretive Guidance satisfies the evaluation requirements of the rules is particularly helpful and, in fact, necessary to effectively allow issuers to employ a "non-audit" approach. This type of an approach will enable greater flexibility and scalability and more readily facilitate application to all issuers.

5. Does the proposed revision offer too much or too little assurance to management that it is conducting a satisfactory evaluation if it complies with the interpretive guidance?

The proposed amendment to Rule 13a-15(c) offers appropriate, adequate and necessary assurance to management that an evaluation performed consistent with the Interpretive Guidance complies with SEC requirements. Without this assurance, issuers may feel they do not have sufficient authoritative support for a departure from the "audit-like" approach adopted, on a default basis, by many issuers, in the absence of any other guidance at the time of initial implementation of 404.

6. Are the proposed revisions to Exchange Act Rules 13a-15(c) and 15d-15(c) sufficiently clear that management can conduct its evaluation using methods that differ from the interpretive guidance?

Yes, the proposed revisions to Exchange Act Rules 13a-15(c) and 15d-15(c) clearly permit management to conduct their evaluation in any manner compliant with the original rule.

- 7. Do the proposed revisions to Rule 1-02(a)(2) and 2-2(f) of Regulation S-X effectively communicate the auditor's responsibility? Would another formulation better convey the auditor's role with respect to management's evaluation and/or the auditor's reporting obligation?**

Yes, the proposed revisions to Rule 1-02(a)(2) and 2-2(f) of Regulation S-X clearly communicate the auditor's responsibility for reporting on the issuer's internal control over financial reporting in its attestation report on management's assessment.

- 8. Should we consider changes to other definitions or rules in light of these proposed revisions?**

No other changes appear necessary.

- 9. The proposed revision to Rule 2-02(f) highlights that disclaimers by the auditor would only be appropriate in the rare circumstances of a scope limitation. Does this adequately convey the narrow circumstances under which an auditor may disclaim an opinion under our proposed rule? Would another formulation provide better guidance to auditors?**

Yes, the language in Rule 2-02(f), indicating a disclaimer of opinion by auditors would only be appropriate in situations where auditors encounter a scope limitation, seems to fully cover situations which may warrant a disclaimer on management's assessment.

Cost-Benefit Analysis: Costs

- 1. We request comment on the nature of the cost and benefits of the proposed amendments, including likely responses of public companies and auditors concerning the introduction of new management guidance. We seek evidentiary support for the conclusions on the nature and magnitude of those costs and benefits, including data to quantify the costs and the value of the benefits described above. We seek estimates of the costs and benefits, as well as any costs and benefits not already identified, that may result from the adoption of these proposed amendments and issuance of the interpretive guidance. With increased reliance on management judgment, will there be unintended consequences? We also request qualitative feedback and related evidentiary support related to any benefits and costs we may have overlooked.**

We think the implementation of the Interpretive Guidance may result in a reduction in issuer compliance costs on a rough order of magnitude of 10% savings in the initial year of adoption (net of first year costs of implementing the Interpretive Guidance) and a potential savings of 15-20% in subsequent years. Since compliance costs under 404 have been widely reported to approximate \$1 million per \$1 billion of revenue, we estimate this potential savings at .02% of public company revenues. This rough estimate is based on our experience as to costs in years one and two, savings realized as a result of

efficiencies in years two and three and our assessment of the potential efficiencies pursuant to the Interpretive Guidance.

Consideration of Impact on the Economy Burden on Competition and Promotion of Efficiency, Competition and Capital Formation

- 1. We request comment on the potential impact of the proposed amendments on the U.S. economy on an annual basis, any potential increase in costs or prices for consumers or individual industries, and any potential effect on competition, investment or innovation. We also request comment on whether the proposed amendments would promote efficiency, competition and capital formation. Commenters are requested to provide empirical data and other factual support for their view to the extent possible.**

As indicated above, the proposed amendments would reduce compliance costs which would benefit the economy as a whole. In addition, the reduction in compliance costs together with reduced regulatory burden as a result of efficiencies would likely improve the competitiveness of the U.S. capital markets against foreign markets and lower the cost of capital. We are unable to quantify these benefits at this time.

Initial Regulatory Flexibility Analysis

- 1. We encourage submission of comments with respect to any aspect of this Initial Regulatory Flexibility Analysis. In particular, we request comments regarding:**
 - The number of small entity issuers that may be affected by the proposed extension;**
 - The existence or nature of the proposed amendments on small entity issuers discussed in the analysis; and**
 - How to quantify the impact of the proposed amendments.**

Respondents are asked to describe the nature of any impact and provide empirical data supporting the extent of the impact. Such comments will be considered in the preparation of the Final Regulatory Flexibility Analysis, if the proposed amendments are adopted and will be placed in the same public file as comments on the proposed amendments themselves.

No comment on small issuer impact.