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Jonathan G. Katz
Secretary
United States Securities and Exchange Commission
450 Fifth Street, N.W.,
Washington, DC 20549-0609.

Re: File No. 4-497, Comments on Implementation of Sarbanes-Oxley Internal Control Provisions

Introduction

We appreciate the opportunity to provide feedback to the SEC on our experiences with the implementation of Sarbanes-Oxley Section 404, Management Assessment of Internal Control over Financial Reporting (Section 404). We commend the SEC and the Staff for their ability to implement the regulations of this important piece of legislation. We agree with the objective of Section 404 - to improve the reliability of financial statements by requiring an evaluation of internal control over financial reporting. However, the stated objective could have been achieved with less effort on behalf of registrants and registered public accounting firms.

There are many ways to improve the assessment of a registrant's internal control over financial reporting. We request the SEC seriously consider the recommendations contained herein and those suggested by other parties as a way to bring the cost/benefit of compliance with Section 404 into alignment while still achieving the objective of improved reliability of financial statements.

Leveraging the Integrated Audit

Auditing Standard No. 2, "An Audit of Internal Control over Financial Reporting Performed in Conjunction with an Audit of Financial Statements" establishes the "integrated audit" concept as the foundation of the Standard. We believe the "integrated audit" concept is the starting point for identifying opportunities to improve the current process.

Management Testing of Internal Control

In an audit of a registrant's financial statements, management is responsible for the preparation of its financial statements and related disclosures and in the process makes financial statement assertions regarding the company's financial condition, results of operations and cash flows, and related disclosures. As part of an audit of a registrant's financial statements, management is not required to perform and document the results of substantive audit procedures as part of an overall assessment by management of the reliability of its financial statements.

We believe a similar approach should apply to the audit of internal control over financial reporting. Management is responsible for the design and operation of its internal control over financial reporting based on a suitable recognized control framework. Management should not be required to test its controls other than to perform sufficient procedures (e.g. walkthroughs) to determine the design is adequate based on the control framework. This would eliminate the duplication of testing performed on internal controls by management and the registered public accounting firm, yet should still provide sufficient emphasis on internal controls to achieve the objective to improve the reliability of financial statements.

This proposal would result in changes to Management's Report on Internal Control over Financial Reporting and to the Report of the Independent Registered Public Accounting Firm. In the case of management's report, management would state we are responsible for establishing and maintaining adequate internal control over financial reporting based on a suitably recognized control framework but would not include a statement regarding an assessment of the effectiveness of internal control over financial reporting as of year-end. In the case of the auditor's report, their report would refer solely to their opinion on the effectiveness of the company's internal control over financial reporting based on their audit and would not state an opinion on management's assessment.

Use of Substantive Audit Procedures

The registered public accounting firm performs its audit of the financial statements to provide reasonable assurance about whether the financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; as well as evaluating the overall financial statement presentation. The process focuses on significant financial statement accounts and assesses business risks that may affect those accounts and reflects the inherent and control risks in the current environment.

The registered public accounting firm should perform the audit of internal control over financial reporting in a manner similar to its audit of the registrant's financial statements. As such, the registered public accounting firm should determine the scope of testing for internal control over financial reporting based on its assessment of risk, level of planned substantive audit procedures, and other factors that may influence the extent and timing of procedures to be performed. Section 404 currently requires testing of internal controls sufficient in scope to reduce to a low level (i.e. 5%) the risk internal controls would not prevent a material misstatement in the financial statements. This level of confidence for the audit of internal control over financial reporting is too great a threshold when considering the level of substantive procedures that are performed on the financial statements.

We believe that registered public accounting firms should have the flexibility to choose which type of audit procedure provides the most effective evidence that the registrant's financial statements and related disclosures are reliable. Substantive audit procedures performed which validate the expected outcome of a registrant's control procedures should reduce the need to test internal controls over financial reporting without compromising the reliability of the financial statements. For example, if it is more effective for the auditors to perform substantive audit procedures on a non-routine process, it should not be necessary to perform tests on internal controls for that process if the internal control design is evaluated, a walkthrough is performed and the evidence gathered through substantive tests suggests that the correct outcome occurred. Similarly, it may be more practical to perform tests of internal controls over routine processes with a high volume of transactions rather than perform substantive procedures on individual immaterial transactions.

Summary

The scope of procedures performed in an audit of internal control over financial reporting should be set in combination with the scope of procedures to be performed in an audit of financial statements. Scopes should not be set separately to meet prescribed coverage thresholds for an individual audit report; rather, scopes should be set to maximize the effectiveness and efficiency of procedures applied in an integrated audit for purposes of determining the audit provides reasonable assurance about whether the financial statements are free of material misstatement. We believe this approach will still provide sufficient emphasis on internal controls to achieve the objective to improve the reliability of financial statements.

Other Recommendations

In addition to leveraging the integrated audit, we have the following recommendations:

1) Allow for rotation of testing based on an assessment of the inherent risk of the account or transaction cycle to the financial statements, the results of controls testing from the past, whether any changes to controls have occurred, and the results of substantive testing.

2) Increase the transparency of the process to develop guidance, changes and interpretations of Section 404. Registrants were not given an opportunity during 2004 to give feedback through a comment letter process as interpretations were developed. As a result, substantial time and cost was incurred during 2004 due to changing requirements that were mandated to registrants. We believe the SEC and PCAOB should issue exposure drafts on proposed changes to Section 404 or Auditing Standard No. 2.

In the event the SEC is not willing to revisit the integrated audit concept proposed above, we offer the following specific items that could also improve the efficiency of Section 404 without substantially reducing the effectiveness.

1) Reduce the required scope of testing for internal controls from a confidence level of 95% to a lower threshold.

2) Allow registered public accounting firms to consider the results of substantive audit procedures and provide for the opportunity to retest a greater amount of management's testing when determining "principal evidence."

3) Require only one test of internal controls for a monthly non-routine process such as the financial statement close process or significant estimates that by the inherent nature of the underlying account are subjected to substantive procedures.

Sincerely,

John P. Rielly
SVP and CFO

Kevin B. Wilcox
VP and Controller