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Nancy M. Morris
Secretary
Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549-1090

Re: File No S7-11-06

Dear Ms. Morris:

We appreciate the opportunity to respond to the SEC's invitation to comment regarding the development of additional guidance for management in performing its evaluation and assessment of internal controls over financial reporting.

We are providing general comments that respond to questions posed in the various sections of the SEC's concept release. Overall, we strongly support the regulations of Sarbanes Oxley Section 404 (Section 404) and are appreciative of the Public Accounting Oversight Board's (PCAOB) releases. Nonetheless, we believe that there may be a gap in the guidance as it relates to the responsibilities of company management and that there is a prevailing attitude that leads to a prescriptive, rules-based adherence to the PCAOB's pronouncements. We believe that these issues could be addressed either in further guidance that is more principles-based or in interpretations of existing guidance that emphasize the role of judgment on both the part of management and public auditors in conducting their respective reviews. Finally, we believe that future guidance should more strongly address a top-down, risk-based testing model to ensure proper emphasis on company-level controls, high-risk areas and ongoing reviews in order to maximize the benefit and minimize the time spent in complying with Section 404.

Introduction Section Comments

We believe that additional guidance should be limited to the articulation of broad principles. Current standards issued by the PCAOB could be interpreted as being strongly rules-based, and we fear that this interpretation may result in diminishing the role of professional judgment on the parts of public auditors and management in assessing internal controls. If new guidance were promulgated, we would recommend that it focus on the need for judgment in establishing "reasonable assurance" and "reasonable details" quoted on page 7 of the PCAOB's Auditing Standard No. 2 (AS2).

Risk and Control Identification Section Comments
While companies spend a significant amount of time in identifying, documenting and verifying company level controls, this time can result in minimal scope reduction if AS2 is applied in a rules-based manner. We have found that, under a risk-based model, the presence of strong, verified company level controls allows for reduction in either the scope of testing or in the sample sizes used in testing. However, we believe that the PCAOB could place greater emphasis on the importance of these controls as they apply to setting the scope of testing.

Similarly, we have found that our moderate use of a risk-based model facilitates the designation of key cycles as well as key controls in the scoping process. A cycle with strong controls, limited activity and minimal financial statement risk (for instance, in some companies this would be fixed assets) should not receive the same attention as more high-risk cycles (such as the revenues and inventory cycles). We would appreciate stronger regulatory emphasis of a risk-based model and believe that its fulsome application would allow many companies to find cost and time efficiencies in the performance of their Section 404 testing.

Further, we believe that there is a benefit to the ongoing nature of Section 404 and Section 302 compliance. We are past the implementation phase and have settled into a process for examining controls and identifying and remediating deficiencies. We believe that the ongoing nature of this process modifies the risk that deficiencies will exist for a long period without detection. This lower risk of continued deficiencies translates to lower financial statement risk, which could then be used to plan scope reductions to minimize the burden of compliance with Section 404. As an example, companies need to perform work on entity-level controls as a “wellness” check to ensure Section 302 compliance (typically via inquiry and management representations). Given this quarterly update of control environments, we believe that there is opportunity to streamline Section 404 compliance work either by reducing overall testing or by spreading the testing more evenly throughout the year, rather than the current emphasis on testing around the “as of” date of the Section 404 control assessment. We believe that the process of ongoing evaluation of internal controls is superior to “as of “ testing and would prefer to see guidance that relies less heavily on the balance sheet date and, at least for management’s certification, focuses more on assessing the robustness of a company’s ongoing monitoring of its control environment. We understand the importance of an opinion date to public auditors and concede that such a change may be applicable only to management’s certification. However, such a distinction may better represent the differing responsibilities and roles of the two parties and may be worth consideration.

Management’s Evaluation Section Comments
As previously stated, we believe that future guidance to management should encourage the roles of judgment, risk-based testing plans and the ongoing process of internal control evaluation and testing. We believe that management’s time investment would be reduced and the results would be more meaningful if internal control reviews were performed under a more reasonable top-down, risk-based model.

We also believe that the PCAOB should place a greater emphasis on judgment in the evaluation of open deficiencies at the balance sheet date. We have concerns that their attempt to quantify these deficiencies may have led to counterintuitive positions in evaluating control deficiencies. For instance, it seems illogical to measure the amount of an account correction against its corrected balance to arrive at a quantified potential misstatement of the account. Yet, this is exactly the course of action demanded when public auditors propose a change to the accounts that is subsequently made by management. It is difficult to conceptualize and communicate that an account balance that has been corrected may be misstated by the amount of the correction. Frankly, we find this to be illogical and a contributing factor to widespread misgivings about the value of the Section 404 process. Clearly, logic, judgment, and transparency (that is communicable to a broader audience) must prevail in such situations if the Section 404 process is ever to be highly regarded and useful to investors. If there is clearly a one-off situation that has been corrected (for instance, the failure to make a balance sheet reclassification that is subsequently corrected before the financial statements are issued), we believe that judgment should prevail in measuring the deficiency's significance to the financial statements. This would reserve the concepts of significant deficiency and material weakness to those that represent more pervasive, on-going control breakdowns that could compromise the integrity of the financial statements (such as improper revenue recognition policies). While a certain amount of this type of analysis occurs in practice, we nonetheless believe that future guidance emphasizing the use of judgment in evaluating open deficiencies would be beneficial to the process.

Finally, we urge the SEC and the PCAOB to time the promulgation of guidance in the early part of a calendar year. While we are strong supporters of the Section 404 process, we also believe that changes promulgated too late in any given year have the near-term effect of complicating, rather than streamlining, the process. Accordingly, we believe that any new guidance should be applicable to internal controls reporting for 2007 and beyond, with earlier adoption permitted.

Thank you for this opportunity to comment on the areas of concern to us as you seek to improve Section 404 requirements. If you would like to discuss further any of our comments or responses, please do not hesitate to contact me at (917) 663-4000.

Yours very truly,

Joseph A. Tiesi
Vice President and Controller

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