

I appreciate the opportunity to comment upon the current 404 audit process and related PCAOB and Audit firms' approach to the implementation of SOX.

It does not seem possible that those reviewing possible changes to this regulation can have ever been involved in the actual processes now taking place. The absurdity of most of the controls is incredible and very destructive to the spirit of innovation for which our Country was formerly known.

The current process violates fundamental governance principals:

- a. There is no oversight involved for the PCAOB.
- b. There is no appeal process for the companies subjected to the uncontrolled audit.
- c. The "tone at the top" negative observation threat from auditors forms a "gag effect" not unlike how Communist countries squelch dissent.
- d. In no other sector in our Country's affairs are those who profit from a service, allowed to dictate the form and substance of the regulations requiring such services to be consumed.

The reality of SOX is a poorly thought-out, sloppily legislated piece of governance, the consequences of which are creating dramatic unintended consequences. The form of the current regulations is little short of a government takeover of the private sector. The combination of oppressive regulations and controls is steadily reducing the operation of a public company to that of a government worker responding to unlimited controls and regulations.

The effect of this legislation is dramatic in the short term and devastating to our Country in the long term:

- a. The explosion of Private Equity Funds shows that capital is fleeing the SEC controls
- b. IPO's are either not occurring or going offshore.
- c. Many firms are considering going private, including some of the largest public firms, i.e., HCA and Aramark
- d. Capital can leave the U.S. as easily as I can move my investment funds into international mutual funds, and the explosion of international funds is ample evidence that US citizens now see that international opportunity exceeds that available domestically.

For CorVel Corporation the following has happened:

- a. Audit fees have increased from \$150,000 a year to \$1.5 million a year.
- b. Over 200 employees of our 2,600 total were involved in last year's audit
- c. Our former CFO resigned, yet remained with the Company.
- d. The audit consumes 20% of the time of the CEO, and derails the entire Company for the final quarter of each year.
- e. While audit fees are only approximately 10% of all profit, they are equal to 100% of discretionary resources. Regulators can fantasize that these costs are bearable, but no firm can allow all of its discretionary resources to be consumed by a project with no value whatsoever. The 404 audits, for firms that have been operating responsibly, contribute nothing to shareholder value.
- f. These are the consequences for a firm which has never had in 15 years of public life ever had a single quarter with a loss and never had a restatement of results. Although a very small firm, we operate a PeopleSoft general ledger system and have highly automated reporting. Our corporate governance record speaks for itself, particularly in those areas related to executive privilege.

At the time of the Enron issue, no other alternative approach to resolution was considered. A Country founded by explorers and people who gave up all they had to travel to the New World, is

now dominated by people who believe increased government control is the sole solution to all problems. The 404 controls focus tremendous control and intervention upon the daily work of the production employees in our Company. Though few, if any, material embezzlements occur at that level in any company, the focus of this regulation is to tell our employees: "We don't trust you." The long term impact of this extremely negative approach to leadership will, I believe, be devastating to our Country. I challenge any federal regulator to sit in, un-announced, on regular sessions with auditors. The substance of the current processes is far different from the public commentary and promotions sponsored by those who profit from this regulation. The nature of the exchanges between auditors and company officers is demeaning and academic. As is typically the case with government regulations, those implementing them are terribly inexperienced and poorly prepared.

This is regulation that is very rapidly driving innovation and business development offshore. Many serious issues face our nation. To have thrown this impediment to progress on top of the ravages of hurricanes, the flood of illegal immigrants and the explosion of technology enabling labor to be applied freely throughout the world, is unconscionable.