

SEC Commission:

Our company has been subject to SOX 404 and affected by AS2 for the three years the rules have been in effect. For the last two years, and it remains to be seen for 2006, the emphasis by our public accountants has been at the process level, not entity level. This has resulted in a very time-consuming, inefficient, and expensive process, since the expectations generally require "key" processes to be reviewed three times: once by the company, once by the public accountant, and then the public accountant has to determine that we (the company) has done an adequate job of assessing the controls over financial reporting (the attest). Furthermore, our "key" control processes have been largely dictated by our public accountant's "benchmark" financial controls, not what we have identified as "key". At least at our company, there has not yet been any noticeable implementation of the recommendations made by the Commission in May 2005 on improving the audit process.

From my experience, and based on the highly publicized problems at other companies, most large financial misstatements occurred because of actions at the highest levels of the company, not at the process levels. Most of these misstatements occurred because of fraudulent actions by executives at those companies, mainly to enrich themselves. A recent study released by the Association of Certified Fraud Examiners, "2006 ACFE, Report to the Nation on Occupational Fraud and Abuse" gave the following statistics on perpetrators of fraud and median loss figures:

	Median Loss
Employee -	\$ 78,000
Manager -	\$ 218,000
Owner/Executive -	\$1,000,000

From these statistics alone, I would recommend the Commission emphasize changes to SOX 404 and AS2, focusing on and clarifying the assessment of internal controls over financial reporting from the entity and "Top-Down" perspectives. Significant financial misstatements are most likely to occur from actions at the highest levels of a company, not the lower or mid-levels.

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