

**Nancy M. Morris, Secretary  
Securities and Exchange Commission  
100 F Street NE  
Washington, D.C. 20549**

**February 23, 2007**

**Re: SEC File No. S7-24-06 and PCAOB Rulemaking Docket No. 021**

**Frank Consulting, PLLP supports the efforts made by the SEC and the PCAOB to make Sarbanes-Oxley (“SOX”) implementation more cost-effective and practical while still working to protect investors. Frank Consulting, PLLP is a small management consulting firm located in Minneapolis, MN. We provide a wide range of outsourced financial services including SOX compliance and internal audit support to small and mid-size companies. We have worked with several companies over the past 3+ years assisting with SOX readiness and our comments that follow draw on that experience.**

**We have reviewed the proposed standard in detail and have summarized our comments below relative to several issues that we believe are important in achieving the ultimate objective of investor protection through enhanced financial reporting, yet also being affordable and value-added to companies.**

**Focus the audit on the matters most important to internal control:**

- We support the proposal to allow management to scale and tailor the evaluation process to fit the company’s facts and circumstances. This should result in lowering costs and efforts to comply which are of the utmost importance to our clients. Our firm’s intention is to truly bring value to this process.**
- We do stress the need for management to “set the tone at the top” and establish an ethical corporate climate and control environment. This should be the key emphasis of the compliance process. A true “top down” approach with strong company level controls which can be linked directly to the process level controls should reduce the detail testing of controls at the process level.**
- The proposals are not specific enough relative to risk-based or true top-down management assessment techniques. This process should begin with management identifying major risks at the entity level that are already known to be the primary causes of material financial statement errors. The controls that are currently in place to mitigate these risks should be documented and then specifically linked to these identified account classes. There should be a specific standard related to the amount of documentation, required walkthroughs and level of testing required**

based on the risk attached to the process and the underlying account. Leaving this up to the judgment of the auditors will foster continued inconsistency and generally cause undue effort on the part of the company. The PCAOB should be able to easily establish the standard.

**Eliminate unnecessary procedures:**

- We support the need to eliminate the need for an audit opinion on management's assessment process. It is important to evaluate the RESULTS of the assessment process. A company can have the best and most exhaustive "process" for control assessment, but poor execution of the desired internal objectives. This is very similar to the reason the current requirements include a control design element and a control operating effectiveness element.
- The proposed changes related to using the work of others are vital to the reduction of costs of compliance. In many cases the company personnel or outsourced internal auditors have more relevant experience than the auditors. To require auditors to test additional occurrences of a control after finding no exceptions on the occurrences tested by the company is a complete waste of time, even on high risk areas. The standard has to be specific on this issue based on the velocity of the control (multi-recurring daily, daily, weekly, monthly, etc.), rather than leave it to the auditor's discretion.
- We support the reduction of work required on multi-location situations. We have extensive experience working with companies that have a multi-location environment. The coverage required by the auditors has been overkill. Specific requirements need to be set in the next standard by the PCAOB. The absence of the specifics will not eliminate any work as the audit firms will still be afraid of the dreaded PCAOB review and their judgment will require more work than necessary to achieve the desired outcome.
- The movement toward allowing experience gained from the prior audit to impact the amount of work during the current audit is a good one. Again, the standard should be very specific regarding how prior audit findings can be used. For example, in situations where there has been a significant change in the personnel, regulations, risk or in the process itself compared to the prior year, it should reduce the ability to use the prior year testing to impact current year work. However, if the circumstances surrounding the process are essentially the same as prior year and the company has appropriately performed internal testing, the auditor should be allowed to significantly reduce the amount of work related to that process.

**Scale the audit for smaller companies:**

- In our opinion, the draft proposals are still not specific enough for smaller public companies. We would suggest one set of assessment rules issued by the PCAOB (instead of the "dual books" issued by the SEC and PCAOB). We strongly believe the proposed standard should be more specific regarding how auditors should scale the SOX compliance process for smaller companies. The scale should relate to size, complexity, centralization, risk of processes, management oversight vs. management override, etc. Strength of the financial reporting process should be

given more weight than most all of the other processes, since good financial reporting controls for a small company with the appropriate criteria will allow most, if not all material reporting errors to be identified and corrected. We would also suggest that with a more practical approach to the SOX process, smaller companies could apply these principles to truly bring value to other key areas within their companies such as quality, safety and cost control.

**Simplify the requirements:**

- We believe that standard materiality levels for determining a Material Weakness and a Significant Deficiency should be set. The materiality levels should be consistent with those used for the regular audit. All the audit firms that are forming an opinion on SOX have to establish materiality for evaluation purposes, so the PCAOB should just set the base standard and allow for some judgment within a certain range.
- The new definitions of Material Weakness and Significant Deficiency really do nothing to make the terms anymore understandable from a practical nature. The proposed definitions have eliminated the double negative, but very little else was accomplished.

**Other comments:**

- We strongly encourage the SEC to retain the December 15, 2007 deadline for non-accelerated filers, which is of course the vast majority of public companies in the United States. Any further delays or extensions of the compliance deadline would only further add confusion and doubt to the SOX program. All public companies have known of SOX since October 2002 and by now should have been preparing for SOX by improving financial reporting controls.
- In order to retain the December 15, 2007 date for non-accelerated filer compliance, it is imperative that the PCAOB release the final standard no later than March 31, 2007. Many of the non-accelerated filers have already begun the compliance process based on the proposed standard and others are waiting on the final issuance. In order to provide the quality of work necessary to add long term business value, all companies with calendar year-ends will have to start their assessment process very soon.
- There are billions of dollars invested in small public companies and those investors deserve to be protected as much as the institutions that invest in larger companies. Our experience has indicated that those companies who complain about their inability to efficiently comply with SOX are the same companies who are underperforming operationally as well. Well run companies using a practical risk-based approach to internal control evaluation will be able to comply with SOX without a huge additional cost. Our experience has shown that these smaller companies do in fact need a basic, functional SOX program. SOX is a process, not a project and must become part of the overall small company plan of operation tailored to a true risk based approach. The true value of this proposal for management and investors alike is to design the program to be repeatable without

**being intrusive or complex without infringing on day-to-day work. The goal should be continuous monitoring in real time.**

- **Good companies will still be able to give investors a liquidation event via the IPO market. Many investors have lost money by investing in poorly run companies that have went public without a sustainable business model and a process for monitoring operational and financial performance. SOX will help assure that companies going public are truly ready to provide investors with long term value.**

**We thank you for the opportunity to share our comments and suggestions with you and would be pleased to discuss further solutions to SOX 404 implementation. Again, our goal is to provide practical compliance readiness solutions and long term business value to our clients during the process.**

**Sincerely,**

**Don Frank  
Founding Partner  
Frank Consulting, PLLP**