

February 26, 2007

Ms. Nancy M. Morris Secretary
Securities and Exchange Commission
100F Street NE
Washington DC 20549-1090

RE: File No. S7-24-06

While I commend the SEC for attempting to lessen the strain that Section 404 of the Sarbanes-Oxley has on companies, I feel it is not completely working to benefit the public, and it leaves a variety of questions left to be asked.

The two principles by which the proposal is organized around are meant to allow companies of all sizes to implement the rules effectively and efficiently. Although this sounds very appealing to the public, there are areas that provide too much lenience to the management and other decision makers. While working to lessen the strain on companies, the proposal leaves management with more power to make decisions that may potentially lead to material misstatements in the financial statements. One example is that “if management determines that the risks for a particular financial reporting element are adequately addressed by an entity-level control, no further evaluation of other controls is required.” The word adequately can be twisted to conform to a definition that a manager thinks appropriate. The word adequate should not impress, nor drive trust into the public who are putting their faith into these companies. Leaving management with this much power potentially leads to issues within companies that the Sarbanes-Oxley Act was created to prevent.

This proposal of the top-down, risk-based approach however, does show an impending benefit in allowing smaller companies to comply with the Sarbanes-Oxley regulations. By basing the assessment of financial reporting on risk and complexity small companies will have less work than large companies with complex internal structure. While this top-down approach seems to help small companies, clarification is needed in the definition of a small company. Some small companies have a very complex infrastructure, and this approach would create the same large amount of work. Who is to judge the size and structure of each company? Are the managers who are asking for fewer regulations the same people who determine what is complex?

One issue that I feel strongly in favor of is requiring companies to use direct testing as well as ongoing monitoring of activities. The part of the proposal that worries me in this area states “for lower risk areas, management may conclude that evidence from on-going monitoring is sufficient and that no direct testing is needed.” This statement once again leaves management with the decision to loosen and relax the testing of internal controls.

So I ask again, are the managers who are asking for fewer regulations the ones who make the decisions to lessen the internal controls and testing? This seems to contradict the purpose of the Sarbanes-Oxley Act.

Thank you for taking into consideration my comment.

Sincerely,

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