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Secretary, SEC
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As a concerned, future employee of corporate America, I have recently reviewed the Security and Exchange Commission's interpretation and proposed rule of management's report on internal control over financial reporting. After reading the proposals, I have come to the conclusion that, although, most of it can be agreed upon by most accounting professionals, there are some ideas that remain vague and some proposals that may need to be further reviewed.

The most notable piece of the proposal is to look at how small companies should handle their internal control system. The current release states how smaller company's "daily interaction with its controls may provide it with sufficient knowledge about their operation to evaluate the operation of ICFR." Because of this statement, these small businesses are allowed to use this "daily interaction" as the support of the effectiveness of their ICFR. Many businesses that fall into the so called small company classification are regional type business but actually be spread out over a number of states. There may be a central operation center that oversees the activities of the reporting entities, but does management really have a sense of the effectiveness of their internal controls? Some of these small companies are, in fact, multi-million dollar companies.

It is absurd to believe that, with such large numbers, a company that size can be effective in their internal control management through their daily interactions.

If management does see their daily interactions as insufficient for proper internal control management, what will force these companies to spend the extra money on placing in the proper controls? Yes, the reputation of the company is at stake, but if there is an area where extra spending is not necessary, management will not hesitate to cut those costs. And also, if the internal control management is competent, placing in and maintaining effective controls will, in the long run, be cost effective for the company. In order for the ICFR proposal to be entirely effective, the committee should further review which companies are being excluded from the proposal and include them in the internal control regulations. By doing so, this will help ensure that America can be protected from future possible internal control failures from these sorts of companies.

Another matter to examine is the complexity of the ICFR. With any new idea, it is important to minimize the complexity that may create confusion. In order to be effective in their management, the internal control system may become a bit involved, which is completely understandable. As the release states, "as these factors increase, management may determine that evidential matter supporting the assessment should be separately maintained." By keeping specific duties to a minimum, ICFR can be a lot more proficient and can also help outside auditors better examine the internal controls of a company.

After reviewing the entire release, I feel that the interpretations and proposals are legitimate and could be effective. There are a few possible glitches that may need to be reviewed, especially the small company ICFR rules. It is important to keep in mind that these regulations are put in place to protect the economy of the country, the well-being of corporate America, and the common investor. By taking in all of these considerations, an effective internal control system should be able to be put into effect, without detriment to the reporting entities.

Sincerely,

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