

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

RE: Release No. 33-8762; File No. S7-24-06: Proposed Rule – Management's Report on Internal Control Over Financial Reporting

Dear Commissioners:

Reznick Group welcomes this opportunity to respond to the request for comments from the Securities and Exchange Commission (SEC) on the concepts and questions contained in the above referenced “proposed rule.”

Reznick Group is a national accounting, tax and business advisory firm that specializes in providing sound, strategic business counsel. The firm works with clients in a broad spectrum of industries, specifically in providing services to real estate professionals; lenders and investors; corporate executives, business owners and entrepreneurs; government professionals; nonprofit professionals; and healthcare administrators.

This letter offers certain general and specific comments in response to the proposed rule that we believe would be valuable to management as they conduct their assessments. Reznick Group has previously participated in, and has been very supportive of, efforts to provide additional guidance to reduce management’s burden of compliance while maintaining effective controls over financial reporting.

Comments

- Reznick Group strongly supports the need for effective internal controls over financial reporting. We believe that, on balance, the proposed rule would continue to improve the effectiveness and efficiency of public company financial reporting.
- The proposed rule represents a positive step so that management would no longer have to rely on internal control guidance from the Public Company Accounting Oversight Board (PCAOB) aimed at auditors, while continuing to hold management responsible for their internal controls. Providing principles-based guidance is a very good, very flexible approach that would allow competent management teams to form effective evaluation processes without being bound by trying to apply detailed rules.

- We also appreciate that the proposed rule recognizes the role of management judgment and risk assessment techniques. Along these lines, we believe it would be helpful to management if the SEC provided additional guidance and examples around testing methodologies and determining appropriate sample sizes.
- While recognizing the guidance is principle-based, to help prevent management from falsely concluding that their organization's evaluation fulfills the expectations and requirements, it would be helpful if the SEC provided more clarification or examples on conducting a satisfactory evaluation that complies with the interpretive guidance. This would be especially helpful in the areas of identification and evaluation of what the SEC believes are material entity-level controls and how these relate to process-level controls.
- It would be helpful if the SEC would provide additional explanation on the role and importance of information technology (IT) general controls as they relate to internal controls over financial reporting. Also helpful would be additional guidance that explained the relationships or dependencies between IT general controls and application controls, particularly in smaller companies, including examples of when an IT general control deficiency could result in an application control breakdown, in turn leading to a material misstatement. Some guidance or examples of the relationships between application controls in prepackaged software and IT general controls necessary to support them also would be helpful.
- We suggest that the SEC provide more detailed guidance or criteria to help management determine when they have satisfied the "safe harbor" requirements or expectations.
- As there still seems to be a lack of consistent understanding, additional explanation is needed describing that when financial statement balances are deemed to be correct why management (and their auditors) cannot then simply conclude that internal controls are adequate.
- The proposed rule includes definitions for preventive and detective controls, but stops short of contemplating the need for corrective actions. We would like the SEC to consider whether detection without action to correct the error or fraud that has been detected is sufficient.
- Page 45 of the proposed rule lists some strong indicators that a material weakness exists, and includes in the list that for highly regulated industries an ineffective regulatory compliance function associated with violations of laws and regulations relating to financial reporting is a strong indicator of a material weakness. Given the potential for penalties, fines, regulator takeovers, impacts of disasters, and litigation and liability resulting from non-compliance beyond financial reporting laws and regulations, the SEC should contemplate whether an ineffective regulatory function in any area should be considered an indicator of a material weakness for highly regulated industries.

- We encourage the SEC to establish a resource that would provide on-going guidance to assist companies in complying with the requirements of The Sarbanes-Oxley Act and with the SEC's proposed rule.
- While we believe that the SEC's proposed rule, along with the proposed new auditing standard from the PCOAB, *An Audit of Internal Control Over Financial Reporting that is Integrated with an Audit of Financial Statements*, represent significant steps in the right direction, the way the accounting firms interpret and apply the standard will be based on how they anticipate their compliance will be evaluated. We encourage the SEC and PCAOB to take the lead and adopt the spirit and philosophy of the proposed standard while conducting their investigations and inspections.

Conclusion

Reznick Group strongly supports the need for effective internal controls over financial reporting. We believe that, on balance, the proposed new rule will continue to improve the effectiveness and efficiency of public company financial reporting. We look forward to further guidance from the SEC, and will continue to participate in the positive evolution of corporate practices that promote ethical and effective financial reporting.

We would be pleased to discuss our comments further. Please contact Kurtis Wolff at (404) 250-4148.

Reznick Group, P.C.

Bethesda, Maryland
February 26, 2007