

March 31, 2005

Jonathan G. Katz, Secretary
Securities and Exchange Commission
450 Fifth Street, NW
Washington, D.C. 20549-0609

Reference: File Number 4-497

Dear Mr. Katz,

We at UnitedHealth Group are pleased to provide comments regarding the implementation of Section 404 ("Section 404") of the Sarbanes-Oxley Act (the "Act") relating to internal control over financial reporting. Following the initial year of this substantial compliance effort, we believe it is important that we review with you our observations and lessons learned, and identify ways to improve the annual process. We appreciate the Commission's willingness to solicit such feedback.

While the implementation of Section 404 was beneficial in some respects, the incremental costs incurred and the diversion of human capital from executing our business objectives associated with Section 404 were significantly greater than anyone envisioned, and the costs clearly exceeded the benefits derived. A March 2005 survey of 217 companies by the Financial Executives Institute ("FEI") found that companies incurred an average of \$4.4 million in incremental costs associated with Section 404 compliance in 2004. Companies with revenues greater than \$5 billion incurred incremental compliance costs of \$10.5 million on average. Additionally, 94 percent of the respondents to the FEI survey indicated that the costs of Section 404 far outweighed the benefits.

We agree with the majority of the FEI respondents. The significant costs and diversion of management time associated with complying with Section 404 are an unreasonable burden on publicly traded companies in the United States. In retrospect, the activities required under Section 404 do very little to address and prevent the management frauds and audit failures the Act was designed to address. The problems at companies like Enron, Tyco and WorldCom were related to ethical lapses, management collusion and the override of existing controls at the very highest level of the company. The Section 404 key entity level and anti-fraud assessment work designed to address breakdowns like those experienced at Enron, Tyco and WorldCom represents a small fraction of the time and cost of compliance with Section 404. Conversely, the very detailed documentation and testing of routine transaction processing and internal controls that comprises the bulk of the time and cost for Section 404 does little to prevent the types of frauds that the Act was meant to address.

To date, the impact on share prices of companies reporting material weaknesses in their Section 404 attestation reports has been minimal. The mild market reaction to these "qualified" attestation reports in a sense supports the position that shareholders are not overly concerned

about detailed-level internal control weaknesses. Further, they don't appear to associate these reported internal control weaknesses with management fraud or likely business failures.

We believe the following suggestions for refining the existing guidance and implementation practices will significantly reduce the current burden in complying with Section 404, without diminishing the value of the Act:

Enable a more risk-based approach to internal control testing.

The Public Company Accounting Oversight Board ("PCAOB") issued "Auditing Standard No. 2: An Audit of Internal Control Over Financial Reporting conducted in Conjunction with an Audit of Financial Statements" ("AS2") which sets forth the requirements of the auditor for providing an attestation of management's assessment of internal control. The prescriptive nature of AS2 has resulted in auditors performing internal control tests without considering a risk-based approach. AS2 requires that each year's audit must "stand on its own". As a result, the auditor is either not able or willing to place significant reliance on cumulative knowledge of the internal control environment or the risk environment. In addition, the auditor is not able or willing to consider the rotation of testing of key controls from year to year. We believe that management and the auditors should be permitted to rotate the testing of key controls based on change and risk assessments. This approach would enable the frequency and scope of internal control testing to be determined considering relevant risks and the auditor's cumulative knowledge of the underlying control environment.

Permit auditors to place greater reliance on the results of independent management testing.

The scope of the auditor's work under AS2 requires the auditor to rely on its own work to provide the "principal evidence" for its conclusions. As a result, auditors have placed very limited reliance on independent testing performed by management. Auditors are planning and performing a significant amount of non-value added, duplicative testing at a substantial cost to shareholders. The auditor should be permitted to place greater reliance on the work of independent management testing after considering the competence, objectivity and independence of the testers. Audit testing should be performed to corroborate the results of the work relied upon.

Permit greater flexibility to test internal controls throughout the year without requiring duplicative roll-forward testing.

Current regulations require management to assert and the auditor to attest to the internal controls of a company as of a "point in time". We realize that the "point in time" assertion and attestation is legislatively mandated. However, we believe that interpretive guidance could reduce the unnecessary inefficiencies created by this approach. A point in time assertion and attestation requires that controls be tested as of that day, or throughout the year with duplicative roll-forward tests performed through the assertion date. We suggest permitting management and auditors more flexibility to perform testing throughout the year, without requiring additional specific tests of the same internal controls later in the year. Additional testing should be required prior to the assertion/attestation date only in instances where previously tested controls or processes have changed since testing was last performed.

Consider a more principles-based approach to testing internal controls.

The Section 404 rules and implementation guidance place an inordinate amount of emphasis on the documentation effort, considering inadequate documentation as at least a deficiency and potentially a significant deficiency. This has caused the audit firms to take the position that in the absence of documentation, controls should be presumed to be ineffective. We note the following guidance provided in the COSO framework, Executive Summary, Chapter 6 (Monitoring):

“Many controls are informal and undocumented, yet are regularly performed and highly effective. These controls may be tested in the same ways documented controls are. The fact that controls are not documented does not mean that an internal control system is not effective, or that it cannot be evaluated.”

We suggest that the SEC and PCAOB consider a more principles-based approach to this standard and allow management and the audit firms to use more judgment in determining an appropriate risk-based approach to documentation, testing and aggregation of deficiencies. This would reduce the level of costly, low-value-added documentation currently required.

Require public accounting firm inspection reports and financial statements be made publicly available.

Much has been written regarding the role of the audit firms in the “crisis of confidence” in our financial markets as a result of the failures of the past few years. Much has also been written regarding transfer of wealth from shareholders to audit firms as a result of the fees charged for implementation of Section 404. We believe that the audit firms should be subject to similar reporting requirements that the companies they audit are subject to. It seems appropriate that companies and their shareholders should have access to the inspection reports that the PCAOB prepares for their audit firm. Additionally, to address the transfer of wealth issue, we suggest that the audit firm’s financial statements be publicly available to constituents.

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Thank you for the opportunity to provide feedback regarding the implementation of Section 404. We urge the SEC and the PCAOB to consider these comments as it deliberates potential improvements to Section 404. Please feel free to contact Scott Theisen (952-936-7141) or me (952-936-5901) with any questions on our comments.

Sincerely,



Patrick J. Erlandson
Chief Financial Officer
UnitedHealth Group