Plum Creek Timber Company, Inc.
999 Third Avenue, Suite 4300
Seattle, WA 98104-4096
206-467-3603

Plum Creek

March 23, 2005

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

Re: File # 4-497

Dear Mr. Katz:

Plum Creek Timber Company, Inc. ("Plum Creek") is pleased that the Securities and Exchange Commission ("SEC") is seeking feedback on our experiences in implementing the internal control requirements under Section 404 of the Sarbanes-Oxley Act of 2002 ("the Act"). Plum Creek's Annual Report for 2004 on Form 10-K includes the three reports on internal control required under Sarbanes-Oxley: a report by management and two opinions from our external auditor, one stating that management's assessment is fairly stated, and the other that our system of internal control was effective for 2004. In addition, the Sections 302 and 906 certifications signed by our CEO and CFO state that the information regarding the Company's financial condition and results of operations included in the Form 10-K are fairly presented.

The overall intent of Congress in enacting Sarbanes-Oxley was to help restore investor confidence and help prevent the types of financial reporting breakdowns that led to the loss of investor confidence in the first place. The Act, along with the new Auditing Standard No. 2 – *An Audit of Internal Control over Financial Reporting Performed in Conjunction with an Audit of Financial Statements* ("AS No. 2"), has introduced a much more rigorous and thorough evaluation of internal control over financial reporting. To this end, Plum Creek believes that, as a result of Sarbanes-Oxley and SEC regulations, the intent of the Congress to strengthen financial reporting credibility is being achieved. The managements of public companies are more aware of their financial reporting responsibilities, and investors have a higher degree of confidence in the documents they produce. In the long-term, that's good for U.S. businesses and investors in the American capital markets.

While our experience under Sarbanes-Oxley has been positive overall, the costs of implementing and complying with the Act have far exceeded anyone's expectations. Based on industry surveys, external auditing fees have skyrocketed over what had been expected. Internal costs similarly rose over what was originally expected. Without change in how the Act is implemented, these high levels of internal and external costs are expected to continue.

While the effects of the Act have been positive, for certain of the requirements the costs have greatly exceeded the related benefits. Based on our experience with the Act, we urge that the SEC and the Public Company Accounting Oversight Board ("PCAOB") make the needed modifications or clarifications described below. We believe that these reforms would materially reduce costs without losing the benefits gained by the Act.

1. **The auditor's opinion on management's assessment of internal controls results in duplication of effort and cost without incremental benefit to investors, and, therefore, should not be required.**

   The objective of the Sarbanes-Oxley Act is to provide assurance to investors that registrants have effective internal control over financial reporting. To achieve this objective, the SEC and the PCAOB issued regulations and standards, which require three reports on the effectiveness of a registrant's internal control over financial reporting.

   Currently, the three reports required are:

   - Management's assessment of the effectiveness of the company's internal control over financial reporting ("Management's Assessment");

   - The independent auditor's opinion on the "fairness" of management's assessment (the "Opinion on Management's Assessment"); and

   - The independent auditor's opinion on the effectiveness of internal control over financial reporting (the "Opinion on Internal Control").

   It is important for management to maintain and evaluate its system of internal control over financial reporting. It is also important for the independent auditor to audit and issue the Opinion on Internal Control, which provides direct assurance with respect to the effectiveness of a registrant's system of internal control over financial reporting.

   However, the Opinion on Management's Assessment serves no additional purpose, and is unnecessary. It requires duplication of effort and cost while providing no incremental assurance to investors beyond that already provided by the Opinion on Internal Control. The Opinion on Internal Control is more important to investors, since it provides clear and direct reporting by the auditor on the company's internal control. The Opinion on Management's Assessment, on the other hand, is an indirect report on internal control, providing no additional assurance to investors.

   In addition to providing no additional benefit, the Opinion on Management's Assessment has resulted in significant additional and unnecessary cost. As a result of the requirement to issue this opinion, auditors in effect dictate to management the methods and procedures management must use in conducting its assessment. This has caused managements to incur unnecessary time and expense, far in excess of what management, in its judgment, considers appropriate for a complete assessment sufficient to support issuance of its report. Further, the independent auditor is required to audit management's assessment process and procedures, resulting in still additional effort and cost. The costs are significant and duplicative, and provide no additional benefit to the company or its shareowners or other stakeholders.

An analogy can be made to requirements for annual financial statement reporting. Management provides its assertion on the reliability of the financial statements in Act Sections 302 and 906, and management's assertion also is inherent in its issuance of the financial statements themselves. The independent auditor, in turn, opines on the financial statements. There is no requirement, and no need, for the auditor to opine on management's assertion. The desired level of assurance on the reliability of the financial statements already is provided with the auditor's opinion directly on the financial statements.

We believe the objectives and requirements of the Act would be fully met through Management's Assessment and the Opinion on Internal Control, without the additional Opinion on Management's Assessment. We urge the Commission to remove the requirement for this third report.

2. Standards should not suggest that "uncorrected" significant deficiencies signal existence of a material weakness.

AS No. 2 states that specified circumstances are strong indicators that a material weakness exists. The identified circumstances include significant deficiencies communicated to management and the audit committee that have not been corrected after a reasonable period of time. The Standard states that these deficiencies are significant and the auditor should expect the company to correct them, and if management does not correct them, that situation reflects poorly on the tone-at-the-top, and directly on the control environment.

This section of AS No. 2 has resulted in managements taking action to modify certain circumstances characterized as "significant deficiencies" when, in its judgment, such action was unnecessary. These modifications are being made for the sole purpose of avoiding these otherwise acceptable circumstances from ultimately being deemed to be a material weakness.

Reality is that a company's management considers control deficiencies on an ongoing basis, and is best positioned to make a cost-benefit analysis to determine whether the benefits of instituting a control outweigh the related costs. There are circumstances where management justifiably deems it appropriate for a circumstance defined as a significant deficiency to remain as such. This is undoubtedly the case in light of the low threshold established in AS No. 2's definition of significant deficiency. And because significant deficiencies must be communicated to the audit committee, a management decision not to take "corrective action" will be made with full audit committee knowledge and concurrence.

We believe it is important to be mindful of the intent of the Act and related SEC regulation, which is to protect investors by requiring disclosure of deficiencies that could result in a material misstatement in the financial statements. The accepted and appropriate standard in this regard is "material weakness." Stating that a significant deficiency that is not corrected reflects poorly on the tone at the top and on the control environment, and will rise to the level of a material weakness, is simply unfounded and incorrect.

We urge the SEC or the PCAOB to remove this inappropriate and unnecessary focus on significant deficiencies, instead giving attention to where it is truly intended and needed – on material weaknesses.

3. **Audits of internal controls over financial reporting are conducted at a level much lower than is required to identify material weaknesses in internal control, resulting in substantial and unnecessary cost; we recommend that standards driving this conduct be modified or that related guidance be provided.**

In order to issue an opinion on the effectiveness of a registrant's internal control over financial reporting, the independent auditor must perform procedures that are appropriate to ensure any material weaknesses are identified. However, in practice independent auditors are conducting audit procedures on internal controls that would never rise to the level of a material weakness, resulting in significant and unnecessary cost to companies and investors.

We believe the following interpretations by independent auditors are contributing to the unnecessary level of work performed:

- Auditors believe it is necessary to evaluate both preventive <u>and</u> detective controls for each significant class of transactions within each significant account; and

- Auditors believe they need to identify deficiencies that are less than inconsequential to determine whether they might aggregate to a significant deficiency.

The audit requirement for internal control over financial reporting should only require auditing at a level necessary to identify control deficiencies rising to the level of material weakness, whereby there is more than a remote likelihood that a material misstatement in the company's annual or interim financial statements will not be prevented or detected prior to their issuance. The word "or" used in AS No. 2 is important – it should not matter whether a control is a preventive control or a detective control as long as the controls in place provide the necessary assurance that the published financial statements are materially correct. As a result of trying to achieve coverage of both preventive and detective controls, auditors are evaluating more controls than necessary to identify material weaknesses.

Furthermore, a significant deficiency is defined as a deficiency for which "there is more than a remote likelihood that a misstatement of the company's annual or interim financial statements that is more than inconsequential will not be prevented or detected." Therefore, a significant deficiency on its own is a very low threshold relative to materiality to a company as a whole. By definition, deficiencies below an inconsequential amount would never result in a material weakness. However, independent auditors believe they need to identify deficiencies that are less than inconsequential to determine whether, when aggregated, they constitute a significant deficiency. As a result of trying to identify deficiencies that are less than inconsequential, auditors are evaluating controls at a level lower than necessary to identify material weaknesses.

This auditing of controls at an inappropriately low level occurs despite the statement in AS No. 2 that the audit is not designed to detect deficiencies in internal control over financial reporting that, individually or in the aggregate, are less severe than a material weakness. Attention instead is given to the requirement that deficiencies must be aggregated to determine whether a significant deficiency exists.

To eliminate unnecessary work being performed, at substantial additional cost, we recommend the SEC or the PCAOB issue further guidance or amend existing standards to make clear that:

- Internal control is effective with existence of either relevant preventive <u>or</u> detective controls; and

- The objective of an audit of internal control over financial reporting is to identify any material weaknesses in internal control. Therefore, audits should be planned and executed at a level appropriate to achieve this objective and not at a level that will necessarily identify less important deficiencies.

4. **Without needed guidance, independent auditors will not adopt "benchmarking" approaches, thereby sacrificing available efficiencies and causing registrants to incur unnecessary costs.**

Paragraph E122 of AS No. 2 discusses the concept of benchmarking and indicates the Standard does not preclude it for tests of application controls. It states, however, that a description of the approach is outside the scope of the Standard. We believe there can be significant efficiencies, and therefore cost savings, through the use of benchmarking without adverse impact on the effectiveness of audits of internal control over financial reporting.

We believe benchmarking practices should be explicitly allowed, not only for computer application controls, but in other areas as well. For example, the benchmarking approach is appropriate and should be permitted in testing controls directly impacted by a company's entity level controls. The benefits of permitting this approach warrant providing guidance on circumstances where and how it may be applied.

Based on auditors' practice thus far, there is little doubt that absent further guidance from the SEC or PCAOB, auditors will continue to ignore the benchmarking practice, thereby losing the related efficiency benefits.

5. **Independent auditors place undue emphasis on companies' documentation for evidence of the effectiveness of the operation of internal controls, and are less inclined to use other, more efficient, testing procedures; additional guidance is needed to avoid unnecessary and costly work.**

We believe AS No. 2 properly outlines inquiry, inspection of documentation, observation and reperformance as appropriate tests of controls. In applying the Standard, however, independent auditors focus to a large extent on inspection of documentation, generally considering lack of documentation to be a control deficiency even when any one or a combination of other testing procedures would demonstrate that the control is operating effectively.

As a result, registrants are directed by their auditors to document the operation of virtually every control, in order to provide the testing evidence auditors believe is required. Much of this extensive documentation of the operation of controls is excessive, resulting in significant and unnecessary cost. Effective use of other testing procedures in appropriate circumstances would result in substantial cost savings for registrants.

We request that the SEC or PCAOB provide guidance describing the appropriate use of control testing procedures, including where and how they can be used efficiently to obtain the necessary audit comfort. Emphasis should be placed on what documentation a company needs, and what it does not need, to provide the needed support for the auditor's testing process.

If you have any questions or would like to discuss these comments, please contact me at the above address, or at 206-467-3600.

Sincerely,

/s/ WILLIAM R. BROWN

William R. Brown
Executive Vice President and Chief Financial Officer