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

RE: File No. S7-11-06

Dear Ms. Morris:

Marathon Oil Corporation appreciates the opportunity to comment on the Securities and Exchange Commission's ("SEC") Proposed Rule, *Concept Release Concerning Management's Reports on Internal Control over Financial Reporting*. Marathon is pleased that the SEC and the Public Company Accounting Oversight Board ("PCAOB") have consistently sought feedback from registrants and public audit firms on their experiences in implementing Sarbanes-Oxley Section 404. We believe the Concept Release is an excellent outline for eventual guidance for registrants on the requirements and best practices for compliance with Section 404. Below are Marathon's views on certain questions raised in the Concept Release.

(Question 1) Would additional guidance to management on how to evaluate the effectiveness of a company's internal control over financial reporting be useful? If so, would additional guidance be useful to all reporting companies subject to the Section 404 requirements or only to a sub-group of companies?

Marathon believes the SEC should issue guidance to registrants on the requirements of a process to evaluate the effectiveness of a company's internal control over financial reporting. Marathon uses PCAOB's Auditing Standard No. 2, *An Audit of Internal Control over Financial Reporting Performed in Conjunction with an Audit of Financial Statements* and a December 20, 2004 paper *A Framework for Evaluating Control Exceptions and Deficiencies* for Section 404 implementation guidance. These documents provide a comprehensive discussion of the subject, but their intent is to provide guidance for the independent auditor in performing an integrated audit rather than assisting management with assessing the effectiveness of the company's internal controls. Frameworks like COSO provide excellent guidance on internal controls, but provide less guidance on how to develop an efficient annual sustainable process to evaluate the overall effectiveness of the company's internal controls against the framework.

(Question 3) Should guidance be limited to articulation of broad principles or should it be more detailed?

Marathon believes guidance should be principles-based and scalable to the size of the company. Principles-based rules should provide guidance on the elements of an effective process in a concise, easily understandable document. We believe that detailed rules to cover situations specific to all companies and industries will result in a large volume of rules, increase the complexity of the compliance process and not serve the interest of business or investors.

In lieu of providing detailed rules, the SEC should consider supplementing principled-based guidance with examples of best practices similar to how COSO documents its internal control framework guidance. The supplemental information would fulfill the needs of those companies that prefer more detailed rules while avoiding prescribing a process to those companies that have already developed an assessment process that is effective for their company.

(Question 6) What types of evaluation approaches have management of accelerated filers found most effective and efficient in assessing internal control over financial reporting? What approaches have not worked, and why?

Marathon established a small Controls Group in the Controller's organization with responsibility for developing and scoping the Company's annual Section 404 assessment process. Internal Audit, which at Marathon reports directly to the Audit Committee of the Board of Directors, performed all of management's testing. The Controls Group evaluated control deficiencies and monitored action plans to remediate deficiencies. A Steering Committee with representation from multiple disciplines throughout the company met periodically to review progress and to ensure control deficiencies were addressed appropriately. This approach, while utilizing significant Company resources, resulted in consistent evaluation processes across the enterprise and also allowed our external auditor to place maximum reliance on the Company's work. In the future, we believe some degree of line management control testing, rather than all testing being performed by Internal Audit, will further improve the efficiency of the assessment process.

(Question 10) We also seek input on the appropriate role of outside auditors in connection with the management assessment required by Section 404(a) of Sarbanes-Oxley, and on the manner in which outside auditors provide the attestation required by Section 404(b). Should possible alternatives to the current approach be considered and if so, what?

Marathon believes the current role of outside auditors in management's assessment process is appropriate. We believe that the key to an efficient external audit of management's assessment process required by Section 404 is a good, interactive relationship with the Company's external auditor. The Company has always maintained a collaborative relationship with its external auditor. The Company has experienced no discernable additional work to satisfy the requirement that the external auditor provide an opinion on management's assessment process.

The process of the auditor's Section 404(b) attestation creates substantial burden upon the Company each year, albeit our experience with the external auditor has improved steadily. The internal control and financial statement audits have become more integrated each year. Our external auditor has improved communication with our financial and operating organizations, has incorporated the results of their entity-level testing in their testing methodology for transactional controls, and has placed maximum reliance on the work of our Internal Auditors. As an alternative to current testing requirements, we believe that PCAOB standards should be amended to allow the external auditors to utilize rotational testing of controls associated with lower-risk transactions, especially when effective entity-level controls exist.

(Question 11) What guidance is needed to help management implement a "top-down" risk-based approach to identifying risks to reliable financial reporting and the related internal controls?

Marathon believes guidance defining the requirements of a "top-down, risk-based" approach would be useful. Our approach starts with an annual scoping process utilizing the previous year's consolidated financial statements and disclosures. Accounts that contribute the significant portion of the financial balances are selected and subsequently mapped to transactions, locations and applications. In addition, accounts with low dollar balances but high qualitative risks are scoped into the assessment process. When selecting the controls to be assessed for operating effectiveness, we are careful to include only those controls that fulfill the objectives of relevant financial statement assertions (e.g., completeness, existence or occurrence, valuation, rights and obligations). For example, in our yearly assessment process, we test the controls over authorization of expenditures, but not controls pertaining to compliance with our bidding policies. We believe that this process results in the Company only considering significant financial issues in its evaluation of controls over financial reporting.

To date, we have used qualitative factors to include additional transactions in our annual assessment, but not to exclude transactions from our annual assessment. Additional guidance would be useful to assist in determining when it might be acceptable to use qualitative factors to exclude transactions from the annual assessment.

(Question 19) What type of guidance would help explain how entity-level controls can reduce or eliminate the need for testing at the individual account or transaction level?

Marathon has not used entity-level controls to eliminate testing at the account or transaction level. Our Internal Auditors have used a re-performance testing methodology with sampling sizes that provided a very high level of confidence that the control executed effectively.

Guidance on the use of entity-level controls to reduce the annual testing of transactional controls by management would be useful in eliminating excessive and redundant assessment effort. We believe that effective entity-level controls would provide management reasonable assurance on the operational effectiveness of transactional controls. Accordingly, management might be able to reduce the amount of transactional controls testing necessary to support its assessment.

Guidance on effective evaluation methodologies for entity-level controls would also be beneficial. Our experience is that the evaluation of the effectiveness of these controls is more subjective than transactional control testing. For example, documentary evidence of business performance and actual to forecast reviews is not as robust as evidence of transactional controls and requires judgment as to whether the controls were effective and at what level of materiality they executed.

(Question 24) What type of guidance would be appropriate regarding the evaluation of identified internal control deficiencies?

Marathon has developed a template that reflects the methodology outlined in the December 20, 2004 paper *A Framework for Evaluating Control Exceptions and Deficiencies* (Framework) to evaluate un-remediated control deficiencies at year-end and if circumstances warrant, at quarter-end. This methodology provides more structure and objectivity to the evaluation process than the practice prior to the Section 404 regulation. However, this methodology has gaps which we recommend that the SEC address. One issue is the process for determining the likelihood of a significant or material error from a control deficiency in situations where no known error has occurred as a result of the deficiency. The Framework allows judgment to be used in the determination of whether a deficiency is a material weakness, but not a significant deficiency. We believe companies should be allowed to use judgment in deciding whether a deficiency rises to the level of a significant deficiency.

Another issue with the Framework is the process for aggregating control deficiencies that impact specific accounts or disclosures. Section 404 requires aggregation, but Audit Standard 2 and the Framework provide no guidance as to how this should occur. The absence of direction in this area results in lengthy discussions within the company and with the external auditor to determine how deficiencies should be aggregated. Guidance as to the appropriateness of using judgmental factors, such as considering the likelihood that multiple deficiencies will occur simultaneously, would be beneficial.

(Question 29) Is guidance needed to help companies determine which IT general controls should be tested? How are companies determining which IT general controls could impact IT application controls directly related to the preparation of financial statements?

The applications and infrastructure included in the assessment of IT general controls should support the financial statements at initiation of transactions through production of the financial statements and disclosures. Initially, we scoped in all infrastructure (network, operating system, and database), computer operations and change management controls related to these applications regardless of whether the controls impacted the integrity of the financial data or were operational in nature. This practice resulted in the annual testing of a very large number of IT general controls, some of which had no impact on the accuracy of the financial statements, and caused us to impact our business in an unproductive manner.

We subsequently developed a risk-based scoping process for IT general controls that considered technical risk, business risk, fraud risk, and the integration of the business process controls with the application controls. The IT general controls that we now consider key correlate to the overall risk and impact on the integrity of the financial data. Rather than develop specific guidance to help companies determine which IT controls should be tested in their Section 404 assessment, the SEC should consider recommending frameworks that would be acceptable to use when determining the testing requirements for IT general controls.

(Question 31) Were the levels of documentation performed by management in the initial years of completing the assessment beyond what was needed to identify controls for testing? Is so, why (e.g. business reasons, auditor required, or unsure about "key" controls)?

Marathon initially compiled a significant amount of process and controls narratives to enable management and our external auditor to assess the design and operational effectiveness of our internal controls. We documented more processes and controls than the project plan required because of difficulty understanding the appropriate amount, type, and level of documentation required. Subsequently, we determined that the Company could more efficiently evaluate the control framework with the addition of process maps to supplement narrative documentation. Our external auditor was able to leverage these process maps to gain efficiencies in walkthroughs. We have found that the Section 404 documentation is helpful in providing individuals an understanding of business processes, and can provide insight into processes that can be improved. The Company's philosophy is to leverage documentation created for Section 404 compliance whenever possible.

Summary

We support the SEC's efforts to provide guidance to registrants. As discussed, we believe guidance is particularly necessary in areas that caused the greatest dedication of our resources, such as the evaluation process to assess controls, excessive external auditor testing requirements, and selection and testing of IT general controls. Greater efficiency could be gained by having guidance related to risk-based approaches to control selection, greater utilization of entity-level controls to reduce transactional control testing, and control deficiency evaluation.

Thank you for your consideration.

Sincerely,

/ Michael K. Stewart /