August 28, 2006

United States Securities and Exchange Commission
Division of Corporation Finance
100 F Street, NE
Washington, DC 20549
Attention: Nancy M. Morris, Secretary

Re: File No.: S7-11-06 -- Concept Release Concerning Management's Reports on Internal Control Over Financial Reporting

Ladies and Gentlemen:

US Oncology, Inc. applauds the Commission for issuing its Concept Release and seeking public input concerning management's reports on internal control over financial reporting. We concur with your observation that additional guidance to assist management in its performance of its assessment of internal control over financial reporting is necessary in light of the limited nature and extent of management guidance that is generally available. We welcome the opportunity to share our views on this matter.

While we acknowledge and agree with the Commission's belief that methods of conducting assessments of internal control over financial reporting will, and should, vary from company to company, we believe that overall principles-based guidance in this area, supplemented with examples, general definitions and expected ranges, are necessary.

In making our comments, we have responded to the specific questions put forward by the Commission in the Concept Release. The numbers below refer to question numbering in that release.

1. Would additional guidance to management on how to evaluate the effectiveness of a company's internal control over financial reporting be useful?

    Yes. Overall principles-based guidance, supplemented with examples, general definitions and expected ranges, is needed in all areas, but especially the following:

    - Top-down risk assessment
    - Multi-location test requirements
    - Monitoring controls
    - Allowable testing approaches, and the minimum requirements for each

- Reliance on monitoring controls, and effect on testing of lower level controls
- The process for evaluation of deficiencies, significant deficiencies and material weaknesses

In the absence of specific guidance for the management evaluation, we have relied on Auditing Standard No. 2: "*An Audit of Internal Control Over Financial Reporting Performed in Conjunction With an Audit of Financial Statements*" ("AS No. 2") as our primary guidance for testing of internal control over financial reporting.

However, we have found that AS No. 2 often provides specific guidance but then qualifies it with a vague principles-based statement. One example is the approach for multi-location testing. AS No. 2 provides a very detailed decision flow that would lead a company with many individually immaterial locations to conclude that they could test only company-level controls. However, the guidance is qualified by a statement that testing company-level controls is not a substitute for testing controls over a <u>large part</u> of the company's operation, followed by another statement that the evaluation of whether controls over a <u>large portion</u> of operations have been tested should be made at the <u>overall level</u> and not at the significant account level. Since there is no indication of what "a large part" means, or what the "overall level" is, we have based our approach on our own determination of what seems reasonable, under the circumstances.

In addition, we believe that additional guidance from the Commission will help to make more consistent interpretations of issuers and their independent accountants. Even though, following the publication of AS No. 2, the SEC has provided additional guidance emphasizing that there is a zone of reasonable conduct in conducting the assessment, and that public accounting firms should allow for reasonable differences in methodologies, we believe that additional specific guidance would give public accounting firms the comfort they require to embrace this guidance.

What are the potential limitations to developing guidance that can be applied by most or all reporting companies subject to the Section 404 requirements?

As discussed above, AS No. 2 is sometimes too specific, so that it does not apply well to unusual situations. In other cases, it fails to define, even in general terms or ranges, certain key terms. The new guidance should focus on principles and avoid mandating specific methods and procedures. On the other hand, it should provide examples, definitions and general ranges so that each reporting company is able to interpret and apply the concept to its organization.

6. What types of evaluation approaches have managements of accelerated filers found most effective and efficient in assessing internal control over financial reporting? What approaches have not worked and why?

   Our evaluation approach is based, in part, on the guidance in AS No. 2, and begins with the identification of significant accounts. Once the significant accounts have been identified, we identify the business processes and business units that are associated with the accounts and determine which are in-scope for the 404 review. At that point we identify control objectives for each business process/business unit based on the relevant financial statement assertions. Then we identify the key controls that require testing. A key control is a control or group of controls that is necessary to meet each control objective. The company-level controls are used as key controls where applicable in each process. However, we have not been able to integrate company-level controls into this approach to the extent we believe is appropriate, because many of them do not meet the level of precision that appears to be required by AS No. 2.

   We would welcome additional guidance in integrating entity and monitoring controls into our approach.

   With regard to the approach for testing, we are also seeking guidance on approaches that are acceptable. We believe that the Commission should be flexible in this area. The culture, size, and maturity of an organization influences the approach that will be most effective and efficient. In particular, we believe that guidance as to the appropriateness of employing self-testing by the owner of the particular control is useful. In issuing guidance regarding acceptable approaches, we believe that the Commission should also include guidance regarding the degree of reliance that external auditors may place on self-testing to eliminate unnecessary duplication of effort in connection with their assessment of internal controls.

9. Should the guidance incorporate the May 16, 2005 "Staff Statement on Management's Report on Internal Control Over Financial Reporting"? Should any portions of the May 16, 2005 guidance be modified or eliminated? Are there additional topics that guidance should address that were not addressed by that statement? For example, are there any topics in the staff's "Management Report on Internal Control Over Financial Reporting and Certification of Disclosure in Exchange Act Periodic Reports Frequently Asked Questions (revised October 6, 2004) that should be incorporated into the guidance the Commission might issue?

   Yes. All guidance that the Commission intends to implement should either be included by reference or inserted directly into the new document. In our experience, our external auditors discount the guidance in the Staff Statement and the FAQ's, and have placed an emphasis on their Firm's interpretation of AS No. 2, even when it does not appear to be appropriate based on subsequent guidance.

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? Would these alternatives provide investors with similar benefits without the same level of cost? How should these alternatives work?

    Currently, the 404 process is inherently duplicative. Management documents and evaluates internal controls; the external auditors then review management's assessment and perform their own extensive internal control tests. Due to the nature of some areas with low transaction volumes, management and the external auditors may use exactly the same documents in their testing. Even in areas where the population available for testing is larger, the fact that each significant area is tested twice each year, (and often more because of the required year end update), is extremely costly and disruptive to the business, with no additional benefits.

    We recognize the need for an independent review of management's assessment. However, there are currently two attestations performed by the external auditors: 1) the attestation on the review of management's assessment and 2) the attestation on the organization's internal controls. It is the second attestation that leads to duplication of effort and unnecessary disruption to the business. We encourage the Commission to eliminate the requirement for this second (and duplicative) attestation on internal control, leaving the requirement for the review of management's assessment in place. This would provide a similar level of assurance while eliminating the additional cost and disruption of duplicate tests.

12. Does the existing guidance, which has been used by management of accelerated filers, provide sufficient information regarding the identification of controls that address the risks of material misstatement? Would additional guidance on identifying controls that address these risks be helpful?

    We agree with the observations made by the Commission in Section III of this concept release relating to the excessive number of controls identified and tested in the initial years of compliance with the Act. We also agree that one of the causes of excessive testing was the overly conservative application of AS No. 2 by external auditors. The PCAOB and the Commission have attempted to address this issue through additional guidance. However, we believe that, while some progress has been made, the public accounting firms continue to identify and test controls at a lower level that those that could result in a material effect on the financial statements.

16. Should guidance be given about the appropriateness of and extent to which quantitative and qualitative factors, such as the likelihood of an error, should be used when assessing risks and identifying controls for the entity? If so, what factors should be addressed in the guidance? If so, how should that guidance reflect the special characteristics and needs of smaller public companies?

    If the Commission concludes that quantitative and qualitative factors are appropriate, then guidance is definitely required in this area. (This is one of the most problematic areas in AS No. 2.). AS No. 2 states that for purposes of determining significant accounts, the assessment as to likelihood should be made without giving any consideration to the effectiveness of internal control. We believe that the likelihood of an error is largely dependent on the design and operation of internal controls, and that any poorly controlled process could result in a material error if the account is material to the financial statements. In the initial year of testing, we believe that controls over all material accounts (based upon quantitative factors alone) should be tested. However, after the initial year of testing, there is a basis for a rotation of testing in well-controlled areas where the quantitative and qualitative factors identified in AS No. 2 indicate a low risk.

17. Should the Commission provide management with guidance about fraud controls? If so, what type of guidance? Is there existing private sector guidance that companies have found useful in this area? For example, have companies found the 2002 guidance issued by the AICPA Fraud Task Force entitled “Management Antifraud Programs and Controls” useful in assessing these risks and controls?

    We have been using the AICPA guidance in our assessment of fraud risks and controls. However, we encourage the Commission to expand on this guidance in the following areas:

    - Quantitative or qualitative guidance on the level at which fraud schemes or scenarios must be identified. Are we required to assess fraud risk at a level other than scenarios that could result in a material affect on the financials? The AICPA guidance indicates that all scenarios should be identified and then classified based on likelihood (probable, reasonably possible, or remote) and significance (inconsequential, more than consequential, or material). Based on the guidance in AS No. 2 it seems that only scenarios that are probable or reasonably possible with a significance that is material would need to be formally documented.
    - The AICPA guidance indicates the fraud risk assessment is scenario-based rather than based on control risk or inherent risk. We believe that control risk and inherent risk are necessary considerations in determining likelihood.

- How does the Fraud Risk Assessment link to the other 404 testing being performed?

18. Should guidance be issued to help companies with multiple locations or business units to understand how those affect their risk assessment and control identification activities? How are companies currently determining which locations or units to test?

    Absolutely – this is critical. The existing guidance in AS No. 2 does not apply effectively to companies with a large number of insignificant sites. In addition, the accounting firms have tended to interpret the existing guidance very conservatively. We encourage the Commission to clarify and expand on the guidance provided by AS No. 2 to address a scenario such as the following:

    Revenue for a company is generated at hundreds of individually immaterial sites of service. The revenue/receivables for these sites are processed by 30 different Central Business Offices (CBOs), of which only a few exceed 5% of consolidated revenue. The sites perform relatively uniform services and the CBOs perform processing based on standard policies, although procedures may vary slightly. In order to achieve coverage over a "large part" of revenue, (generally interpreted by major public accounting firms as over 70%) the company would need to test 40%-50% of its sites/CBOs each year.

    We encourage the Commission to address scenarios such as this, and include the following in the resulting guidance:

    - AS No. 2 encourages the auditor to vary the nature timing and extent of testing. The emphasis on testing a large portion of an account balance may conflict with a cost effective approach to vary the locations tested each year. We urge the Commission to consider rotation of locations as an acceptable alternative to coverage of a large part of the account balance.
    - Flexibility in the definition of an "individually important business unit" and in the determination of the controls that need to be tested. We believe that the current interpretation of the guidance in AS No. 2 bases the identification of an individually important business unit primarily on a strict application of materiality. (For example, locations generating at least 5% of revenue). We encourage the application of additional factors such as the number of financial statement accounts affected, the uniformity of the services provided at each site, company-wide policies, and monitoring controls.
    - For financial reporting purposes, some accounts must be reported without regard to their immateriality. Interpretations of AS No. 2 generally require that these accounts be deemed significant accounts subject to management's evaluation of controls. We encourage the Commission to address this circumstance in their guidance.

20. Would guidance on how management's assessment can be based on evidence other than that derived from separate evaluation-type testing of controls, such as on-going monitoring activities, be useful? What are some of the sources of evidence that companies find most useful in ongoing monitoring of control effectiveness? Would guidance be useful about how management's daily interaction with controls can be used to support its assessment?

    Yes. We encourage the Commission to provide guidance on the types of evidence appropriate for specific types of controls as well as how monitoring controls and management's daily interaction with controls can be used to support our assessment. Examples from our organization include:

    - Monitoring controls such as Executive Quarterly Balance Sheet Reviews that are conducted by region and business unit.
    - Standard meetings such as a monthly pre-close meeting conducted to identify unusual items that occurred during the month as well as obtain a current status on ongoing issues.
    - Oversight and operational analysis conducted by regional operational management performed by review of reports and trends where follow-up is conducted via email or telephone
    - Basic management processes such as review of cost center reports, monitoring of budget/actual results, regional reviews, etc, performed throughout the organization, but at different levels of detail with differing levels of documentation
    - Review, analysis and consulting provided by centralized special-purpose departments within the organization. For example, reimbursement analysis and consulting provided by our centralized Reimbursement Department.

23. Would guidance be useful on the timing of management testing of controls and the need to update evidence and conclusions from prior testing to the assessment "as of" date?

    There are two requirements regarding the "as of date" that we encourage the Commission to reevaluate:

    - The requirement to update the controls assessment as of the end of the year by re-performing tests in areas where there have been no changes in controls or other significant events. This is costly and provides no benefit. We understand the need to retest areas where controls may have changed due to significant events that occurred after the original tests were performed. Examples of such events include major system changes, re-organizations that include that area, or major procedural changes. Even where such events have occurred since the original testing of controls, we believe that issuers should <u>first</u> be permitted to evaluate the overall potential effect of such events prior to mandating retesting. For example, a systems conversion that occurs at an immaterial location may not require additional testing at year end, assuming there were no issues with the IT change management testing. We recommend that the guidance regarding the update process be enhanced to focus only on areas with significant changes where those changes could potentially impact the results of prior testing.

- In areas that have been identified as lower risk and where controls are routine, we believe that rotating full scope testing with limited testing would result in efficiencies without a loss of effectiveness.

24. What type of guidance would be appropriate regarding the evaluation of identified internal control deficiencies? Are there particular issues in evaluating deficient controls that have only an indirect relationship to a specific financial statement account or disclosure? If so, what are some of the key considerations currently being used when evaluating the control deficiency?

- We do not believe that all errors should be considered deficiencies, since this does not allow for inevitable human error. In PCAOB Staff Questions and Answers (Revised July 27, 2004), Q13 asks "Are all control testing exceptions, by definition, control deficiencies"? The PCAOB answer is <u>"No…any individual control does not have to operate perfectly, all the time, to be considered effective</u>. Therefore, Auditing Standard 2 provides the auditor with directions that allow the use of judgment in the circumstances in which he or she is evaluating whether a control testing exception is a control deficiency." We encourage the Commission to include and expand on the PCAOB guidance in this area.

- We believe that any methodology (i.e. the methodology developed by the nine large firms) that is almost solely quantitative in nature (whether by design or actual implementation) is inadequate.

  The PCAOB seems to have similar concerns regarding the methodology adopted by several accounting firms and has issued the following comments in PCAOB Release 2005-023, dated November 30, 2005…

  "*Anecdotal claims have suggested that some auditors applied a more stringent threshold to the evaluation of control deficiencies than the definitions in Auditing Standard 2 require. In addition, mechanical reliance on standardized tools appears to have contributed to unnecessary work in this area."*

  "this evaluation requires an exercise of judgment, based on an assessment of what constitutes reasonable assurance under the circumstances, not on the mechanical application of a predetermined probability formula."

  "Many engagement teams used a framework developed through the collective effort of nine firms for evaluating deficiencies…The statistical precision

suggested by these terms may have driven auditors' decision-making process unduly toward simplistic quantitative thresholds and away from the qualitative evaluation that may have been necessary in the circumstances."

We encourage the Commission to expand on the PCAOB guidance in this area.

- In our view, materiality levels set by external auditors appear to be too low and based on only one measurement. (For example, .5% to 1% of pre-tax net income for a significant deficiency or 4% to 5% for a material weakness). We believe that consideration of several measures, for example, total assets, stockholders equity, revenue, operating income, etc. would provide a more relevant and effective measure of materiality. This is particularly true in leveraged companies where earnings before interest and taxes (EBIT) would represent a more meaningful measure than pre-tax net income. In addition, the use of judgment in evaluating the underlying circumstances of the deficiency should be emphasized in the resulting guidance.

  We encourage the Commission to provide guidance regarding:
  - Whether all errors are deficiencies
  - Considerations in the evaluation of deficiencies, including the appropriateness of using a standardized model
  - Guidance on setting materiality levels
  - Whether management may use judgment and experience to determine that some items are only deficiencies and do not require a formal review process in order to categorize the deficiencies

25. Would guidance be helpful regarding the definition of the terms "material weakness" and "significant deficiency"? If so, please explain any issues that should be addressed in the guidance.

    Yes. The current guidance in AS No. 2 defines a significant deficiency using the terms "more than a remote likelihood" and "more than inconsequential" and defines a material weakness using the terms "more than a remote likelihood" and "material". We have found that the application of these definitions, especially the definition of a significant deficiency, can result in overly conservative classifications of deficiencies. We encourage the Commission to reconsider these definitions, or to provide further clarification, with examples, regarding the application of the definitions.

26. Would guidance be useful on factors that management should consider in determining whether management should conclude that no material weaknesses in internal control over financial reporting exists despite the discovery of a need to correct a financial statement error as part of the financial statement close process? If so, please explain.

Yes. In the case of errors relating to the current period, we consider the analysis and review that occurs during the close process to be a part of an effective internal control structure. A current period error identified and corrected during close should be evaluated to determine why it occurred, but we would conclude that it was not a material weakness because it was detected and corrected as part of our normal system of internal control.

An error relating to prior quarters, depending on the amount of the error and the circumstances resulting in the error may or may not be a material weakness or significant deficiency. After evaluation, management may conclude that an error involving a prior quarter, resulting from unique circumstances unlikely to be repeated may be neither a significant deficiency nor a material weakness.

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?

    Guidance in this area is needed. We have been using a modified CobiT framework for assessing IT general controls, and while we have eliminated many CobiT controls that are operational in nature, we are nonetheless testing controls that are extremely low risk from a financial statement perspective. Controls such as physical security of the data center and intrusion detection are operational controls that have a very low risk of impact to the financial statements. The IT controls that could have a direct impact on the financials are application controls (workflow approvals, transaction limits, access controls, etc). The focus of general controls testing should be limited to the controls that could directly impact application controls such as change management and controls over server configuration, administration and access.

30. Has management generally been utilizing proprietary IT frameworks as a guide in conducting the IT portion of their assessments? If so, which frameworks? Which components of those frameworks have been particularly useful? Which components of those frameworks go beyond the objectives of reliable financial reporting?

    Our IT assessment consists of 3 types of reviews:

    - Application controls identified and reviewed by the individuals conducting the business process assessments. These are included in the business process test documentation and generally consist of reviews of workflow approvals, transaction limits and end user security. The framework for this testing is the same as that used for business processes, i.e. COSO.
    - Application testing requiring a specialist. The controls that trigger these reviews are identified by the individuals performing the business process testing, however in our view, require the use of a specialist. Examples of these reviews include:

   i. The use of specialized technology – i.e. a data warehouse
   ii. Reviews of certain configuration settings or access to application level functionality that spans modules and business processes – i.e. access to PeopleTools functions within PeopleSoft
   iii. Reviews of service providers where a SAS 70 is unavailable

  The framework used in these reviews may be CobiT or COSO or a combination of each.

- IT General Controls Reviews. We have been using the CobiT framework, modified as necessary to exclude components that would not affect application controls. In addition, we exclude the components of CobiT that are tested as part of company level controls. The CobiT Control Objectives that we have found useful are (although we do not necessarily test each control in each objective):
   i. Plan and Organize:
      - Define the Information Architecture
      - Define the IT Organization and Relationships
      - Communicate Management Aims and Direction
   ii. Acquire and Implement
      - Acquire and Maintain Application Software
      - Acquire and Maintain Technology Infrastructure
      - Install and Accredit systems
      - Manage Changes
   iii. Deliver and Support
      - Manage Third-party services
      - Ensure System Security
      - Manage the Configuration
      - Manage Problems and Incidents
      - Manage Data
      - Manage Facilities
      - Manage Operations
   iv. Monitor and Evaluate
      - Assess Internal Control Adequacy

33. What guidance is needed about the extent of documentation that management must maintain about its evaluation procedures that support its annual assessment of internal control over financial reporting?

    We are not aware of any existing guidance regarding the extent of documentation that management must maintain. We encourage the Commission to provide flexible guidance with regard to documentation.

34. Is guidance needed about documentation for information technology controls? If so, is guidance needed for both documentation of the controls and documentation of the testing for the assessment?

    We believe that if the Commission provides principles-based guidance for question #33 above, additional guidance specific to IT will not be necessary.