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

Subject: **File number S7-11-06**

Dear Ms. Morris:

American Electric Power Company, Inc. (AEP) appreciates the opportunity to comment on the Commission's Concept Release soliciting public comment on the provision of additional guidance to management of public companies. AEP, a Columbus, Ohio based energy company, is one of the largest investor-owned utilities operating in the United States, with revenues of over $12 billion and more than 19,000 employees. We provide energy to approximately 5 million customers in Arkansas, Indiana, Kentucky, Louisiana, Michigan, Ohio, Oklahoma, Tennessee, Texas, Virginia and West Virginia.

Executive Summary

AEP is now in its third year of reporting under the requirements of section 404. Although we have realized efficiencies that have resulted in some decrease in efforts required to comply with section 404, the overall requirements remain unnecessarily cumbersome and costly. We applaud the Commission's continued efforts to identify ways to achieve the objectives of the legislation at a reasonable cost. Providing additional guidance to public companies in the areas noted below will help further this effort by reducing the indirect requirements being improperly imposed by the external auditors as a result of AS2.

We have provided comments on those issues that are of particular concern to us. Foremost among these is our position that Section 404 requirements should not apply to wholly owned subsidiaries, as detailed in Response Number 4. Applying the Section 404 requirements to these companies results in substantial unnecessary additional work and costs without any corresponding increase in benefit to investors. Another area of great inefficiency under the current rules is the requirement that the external auditors perform their own assessment of internal controls over financial reporting and review and opine on management's assessment. This is redundant, duplicative and non-value added work, that increases costs without providing any real benefit, as we have outlined in response to question number 10. Eliminating the requirement that the external auditors provide an opinion on management's assessment would streamline the process, reduce costs, and allow the external auditors to focus on their primary objectives, which are determining whether the financial statements are fairly presented and whether internal controls over financial reporting are adequate and effective.

We have also noted the need for additional guidance that would allow management to effectively leverage strong entity and high-level monitoring controls to reduce the level of detailed transactional control testing. Although these controls operate at a higher level, and are not normally designed to detect all errors, they can be very effective in preventing a material misstatement, which is the primary focus of Section 404. Somewhat related, is our recommendation that the additional guidance incorporate management's ability to use knowledge and evidence obtained through methods other than direct testing in performing their assessment. We believe the Commission, through addressing these as well as the other suggestions we have noted, has the ability to greatly reduce the burden that Section 404 has placed on companies, without reducing the effectiveness of the compliance process. None of the recommendations we have provided will negatively impact the quality of management's review or the level of assurance that results from management's assessment and the external auditor's review.

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

Additional guidance directed toward management of all reporting companies would be beneficial. Without such guidance, management has been forced to follow the guidance provided to the external auditors by the PCAOB, particularly Auditing Standard No. 2 *An Audit of Internal Control Over Financial Reporting Performed in Conjunction with An Audit of Financial Statements* (AS2). Although management and the external auditors have a similar objective relative to opining on the effectiveness of internal controls over financial reporting, the path each must take to reach that objective can differ substantially. Management's intimate knowledge of the business provides them with the ability to better understand the company's risks and to more efficiently and effectively identify significant issues through monitoring, inquiry, etc. For example, in comparing current period financial statements to prior periods, management has the collective knowledge to assess the reasonableness of many of the variances without resorting to detailed analysis of each account. The prescriptive language of AS2, being geared toward the external auditor, does not provide management the flexibility to fully utilize the tools available to them to perform a true risk-based, cost effective assessment, because it was not intended to become de-facto guidance for management. Additional guidance on taking advantage of strong entity level controls, particularly high-level monitoring controls, to reduce the amount of testing of detailed transactional level controls would also be helpful. Although most business failures resulting from inaccurate financial reporting have been a direct result of failure of entity level controls, the external auditors place little reliance on them, and thus management is forced into unnecessary testing of low-level controls. Because of this approach, weak entity level controls result in increased transactional testing, but strong entity level controls do not result in decreased transactional testing.

It is important in providing the additional guidance that the Commission not become overly prescriptive. The uniqueness of each company necessitates that there be flexibility in applying the guidance to achieve the objective of evaluating their own system of internal controls. It is also important that the Commission reiterate that they, not the PCAOB, are responsible for providing the guidance that management must follow.

3. Should additional guidance be limited to articulation of broad principles or should it be more detailed?

Additional information in the form of broad principles providing interpretive guidance would be beneficial. Detailed, prescriptive guidance could result in many of the same flaws noted in AS2. Due to the diversity of companies, processes, risks and controls it is not feasible to provide prescriptive guidance that is relevant to all companies. Providing the additional guidance in the form of broad principles will allow each company the flexibility to design an assessment process that achieves the objectives of section 404 in the most efficient and effective manner.

4. Are there additional topics, beyond what is addressed in this Concept Release, that the Commission should consider issuing guidance on? If so, what are those topics?

Beyond those topics addressed by the Concept Release, we believe Section 404 requirements should be modified to exempt wholly owned subsidiaries that are non-accelerated filers. The legislation in its current form levies onerous and unnecessary compliance requirements on wholly owned subsidiary registrants. It results in requiring substantial work on the part of management and the external auditor to document and test processes and systems that are not significant to the parent company, and would not be in scope except for the reduced level of materiality required for these subsidiary companies.

AEP, an accelerated filer, has 10 wholly owned subsidiaries that are registrants. These wholly owned subsidiaries, which are not accelerated filers, are exempt from needing audit committees at the subsidiary levels under SEC Release No. 33-8220; 34-47654

("Standards Relating to Listed Company Audit Committees"). It is appropriate to draw a parallel between the above SEC position and the position that Section 404 management assessments and independent audit attestations at the wholly owned subsidiary registrant level are unnecessary. Performing management assessments and independent auditor attestations for each non-accelerated registrant is not cost-beneficial to AEP, our shareholders, or the general investing community. Specifically, we recommend that the SEC remove Section 404 compliance requirements for registrants that meet the following criteria:

- The registrant is a wholly owned subsidiary of the parent company
- The registrant meets the SEC audit committee exemption
- The parent company successfully complies with Section 404 standards and Section 302 standards
- The parent company includes in their management assessment and independent auditor attestation those corporate allocation processes, systems and controls that significantly impact the subsidiary registrant

5. Would additional guidance in the format of a Commission rule be preferable to interpretive guidance? Why or why not?

As stated in our comments relative to question 3, we would prefer to see broad interpretative guidance rather than specific Commission rules. This would better accommodate the diversity in companies and approaches, thus allowing maximum flexibility in achieving the goals of section 404. The one area where a specific rule is needed is the exemption of wholly owned subsidiaries from the Section 404 requirements, as noted in our response to question 4.

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?

Internal Audits serves as the Project Manager for Section 404 compliance at AEP. We have utilized a top-down, risk based approach that focuses efforts on the processes and accounts that are most significant to the financial statements. We have also expended considerable efforts on the evaluation of entity level controls, including performing employee surveys to determine the level of understanding and compliance with these controls throughout the organization. Process Owners, with some assistance from Internal Audits, are responsible for documenting their controls. Internal Audits develops the test scripts and the Process Owners are responsible for performing the testing. Internal Audits performs re-testing on a selective basis. Although this approach has worked well for us, we are interested in learning what other approaches have been taken that could improve our assessment process.

7. Are there potential drawbacks to or other concerns about providing additional guidance that the Commission should consider? If so, what are they?

How might these drawbacks or other concerns best be mitigated? Would more detailed Commission guidance hamper future efforts by others in this area?

In addition to the comments contained in the response to question 3, it is imperative that the Commission assures that the PCAOB aligns its guidance with the guidance the Commission provides to companies. In the absence of such alignment, the external auditors will continue to hold companies to the PCAOB guidance in spite of the fact that it is not directed to the companies. It is important for the Commission to continue to clearly articulate that it, not the PCAOB, is responsible for establishing the guidance for companies.

8. Why have a majority of companies who have completed an assessment, domestic and foreign, selected the COSO framework rather than one of the other frameworks available, such as the Turnbull Report? Is it due to a lack of awareness, knowledge, training, pressure from auditors, or some other reason? Would companies benefit from the development of additional frameworks?

AEP selected the COSO framework because we felt it was comprehensive and widely accepted. Although we are aware of other frameworks, such as the Turnbull Report, they offered no advantage over COSO. Our external auditors did not influence our decision to utilize COSO, but our assumption was that this framework would be more familiar to them. We would consider utilizing a different framework if we identified one that was more efficient and/or effective in helping us meet our objective of evaluating internal controls over financial reporting.

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 the guidance should address that were not addressed by that statement? For example, are there any topics in the staff's "Management's 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 any guidance the Commission might issue?

Following are some concepts from the May 16, 2005 guidance that should be incorporated into the interpretive guidance:

a. Management is responsible for establishing and maintaining their respective company's system of internal control. This includes the design, implementation and evaluation of the internal control structure. Management has the expertise in regard to the business operation and should be able to leverage that expertise during the SOX 404 compliance process. Some external auditors still appear to want management's assessment to mirror theirs. They do not recognize that management's intimate knowledge of the company's operations and risks, coupled with the high-level monitoring controls management has in place, provides them a basis for performing an equally effective assessment without performing every detailed transactional test that the external auditors perform. The May 16, 2005 guidance warns against taking an approach that is too "formulaic", rather than focusing on the underlying purpose of the requirements. This recognition of the need for management to utilize professional, informed judgment rather than following a prescriptive approach should be reaffirmed because it is a key in assuring both effectiveness and efficiency in management's assessment.

b. An audit of internal control over financial reporting is an audit to detect <u>material weaknesses</u>. Some external auditors appear to be auditing to the control deficiency level and spending a great deal of time identifying errors that could not possibly be material to the financial statements. Again, their expectation is that management's assessment should mirror theirs, and thus management is being required to spend too much time and effort testing at the detailed transaction level for things that have a less than remote chance of creating a material weakness, even when aggregated. Based on the May 16, 2005 guidance, "the overall focus of internal control reporting should be on those items that could result in material errors in the financial statements." Including this concept in the interpretive guidance will allow management to focus on risks that truly are material to the financial statements, which is the intent of section 404.

c. The May 16, 2005 guidance addresses the concept of reasonable assurance vs. absolute assurance. Internal controls over financial reporting are designed to provide reasonable assurance that material errors in the financial statements will be prevented or detected in a timely manner. They are also designed at a certain level of precision to identify the material items. Reasonable assurance is a high level of assurance, but it is not absolute. However, in practice, public companies have been held to a higher standard than the reasonable assurance standard. This has manifested itself in, among other things, their reluctance to rely on high-level monitoring controls. Therefore, reiteration and reinforcement of the expectation in this regard would help minimize low-value work relative to control documentation and testing of lower risk transactions.

d. It would be helpful to management if additional guidance were provided in regard to the use of ongoing monitoring to evaluate whether or not certain control activities are operating effectively. Although on-going monitoring controls are a key component of the COSO framework, management has generally not been permitted to leverage these controls to reduce the level of detailed transaction testing that is performed. Management is intimately involved on a daily basis with the operation of their processes and controls. Based on the nature of the control, there may be no other direct evidence that the control is in place and operating effectively other than the on going monitoring of its operation by management. Allowing management to use their expertise and direct knowledge of their processes and controls is much more efficient than creating unnecessary documentation just to evidence that a control was exercised, when the documentation adds no value to the control itself. For example, if a manager is responsible for reviewing and approving daily exception listings generated by the system, requiring that the manager approve "blank sheets" on days when there are no exceptions (and thus requiring all of the associated work such as filing and maintaining them) results in increased costs without any improvement in controls. In cases such as these emphasis should be placed on the ability to use other forms of evidence, such as inquiry, to achieve the necessary comfort that the control is effective.

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 the 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 to the current approach provide investors with the similar benefits without the same level of cost? How would these alternatives work?

The external auditors currently are required to provide opinions on the financial statements, internal controls, and on management's assessment. This is extremely costly and inefficient. The role of the external auditors should be limited to expressing opinions on the financial statements and on internal controls. Having the external auditors provide an opinion on management's assessment adds no value and detracts focus from the external auditor's own assessment of controls. The requirement that management provide an opinion on internal controls over financial reporting, coupled with the knowledge that the external auditor will be independently evaluating such controls, is sufficient incentive to assure management performs their assessment diligently, without the necessity of having their assessment "re-assessed". Additionally, requiring the external auditors to report on the adequacy of management's assessment also results in the external auditors strongly encouraging management to mirror their own assessment, resulting in significant inefficiencies.

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?

The concept of using a top-down, risk-based approach is a key cornerstone for building an efficient and effective assessment. Although everyone accepts the concept, putting it into practice requires considerable professional judgment and a thorough knowledge of the Company's business and risks. It would be difficult to provide more concrete guidance, while still allowing for the level of flexibility that is required in this area. The guidance currently available is sufficient. The real challenge lies in convincing the external auditors that utilization of a risk-based approach should result in focusing efforts only where there is a possibility of a material weakness.

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?

As stated in the response to question 9, additional guidance would be beneficial if it helped to assure the focus of the review remains on key controls that could result in a material weakness. Evidence of the need for this is that many of the controls tested by the external auditors could fail (and some have) without even approaching a material weakness. The current level of testing is definitely focused on detecting deficiencies, not just significant deficiencies or material weaknesses. Auditing of controls at such a low level was not the intent of section 404, and is the primary cause of the enormous costs that companies are incurring. As an example, our external auditors have required that we incorporate and test several dozen controls over our materials inventory, when the inventory represents less than 1% of our balance sheet, consists of consumables used in the production of power, isn't highly susceptible to theft, and is distributed among several hundred individual locations. Thus any additional guidance that could refocus efforts on controls mitigating risks that have the potential to be material weaknesses would be helpful.

15. What guidance is needed about the role of entity-level controls in evaluating and assessing the effectiveness of internal control over financial reporting? What specific entity-level control issues should be addressed (e.g. GAAP expertise, the role of the audit committee, using entity level controls rather than low-level account and transactional controls)? Should these issues be addressed differently for larger and smaller companies?

According to the Public Company Accounting Oversight Board (PCAOB) *Staff Q&A Auditing Internal Control over Financial Reporting,* "Company-level controls function within all five COSO internal control components and often times have a pervasive effect on controls at the process, transaction or application level." In addition, "Because of the pervasive effect of company-level controls, in this top-down approach, the auditor tests and evaluates the effectiveness of company level controls first, because the results of this work will affect the auditor's testing strategy for the controls at the process, transaction or application level."

In practice, although weak entity level controls have increased the required testing in other areas, strong entity level controls have <u>not</u> resulted in decreased transactional testing. External auditors have been reluctant to rely on, or allow management to rely on, effective entity level controls to reduce the amount of detailed testing. As an example, a robust budget-to-actual review process can be an effective entity level control that could identify significant errors in many areas within a company. However, the external auditors do not consider this a key control, and thus do not place reliance on it. High-level monitoring controls such as this are a very effective means of preventing material misstatements, and more reliance should be placed on them. Other high-level monitoring controls are performed in financial reporting. These include an accounting issues tracking system, account analysis and period-to-period review of financial statement accounts. Additional guidance in utilizing the entity-level controls such as management integrity and competence, active involvement of the audit committee and a robust employee ethics program, as well as high-level monitoring controls to actually reduce the level of detailed testing, including specific examples, would be very helpful, and would result in more efficient reviews.

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 companies?

Additional guidance in this area would be helpful, particularly focused on the use of qualitative factors. We have identified several key qualitative factors that directly tie to risk such as:

a. Inherent subjectivity
b. Complexity of transaction
c. Susceptibility to fraud or loss
d. Risk trend
e. Routine vs. non-routine
f. Automated vs. manual
g. Known issues

Although these items significantly impact the likelihood of an error occurring, current practice is to overweight the quantitative factors, and underweight these qualitative factors. Typically, if the qualitative factors indicate “high risk” the external auditors will use this as a reason to scope in additional processes. However, if the qualitative factors indicate “low risk”, it is usually not influential enough to scope out processes that are significant from a quantitative standpoint. The inability to fully utilize management’s knowledge of the business (through the qualitative assessment) results in unnecessary low-value testing.

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

No further guidance in this area is required.

19. What types of guidance would help explain how entity-level controls can reduce or eliminate the need for testing at the individual account or transaction level? If applicable, please provide specific examples of types of entity-level controls that have been useful in reducing testing elsewhere.

As noted in the response to question 15, this is an area that offers significant potential for streamlining the review while making it more effective at the same time. Additional emphasis on the entity level controls and specific examples of ways to utilize strong entity level controls to reduce detailed transaction testing would be helpful. Since many of the entity level controls are similar from company to company, it would be beneficial to demonstrate what types of transactional controls can be eliminated from testing if certain entity level controls are effective. Some examples of entity-level controls that we believe are highly effective in reducing or eliminating the need to test some transactional controls are budget-to-actual comparisons, period-to-period review of financial statements, accounting issues tracking systems, and having an effective employee concerns line.

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?

Additional guidance regarding the use of evidence other than direct testing, including management's cumulative knowledge and experiences from daily interactions with the controls, would be beneficial. AS2 limits the reliance the external auditors can place on this type of evidence, and they have therefore been reluctant to accept it as part of management's assessment. This has resulted in the performance of direct testing that is unnecessary and costly. Ongoing monitoring controls can and should be a major supporting factor of management's assessment when entity level controls are determined to be effective and risk is low. Although many of these controls, such as budget variance analysis and period-to-period financial statement reviews operate at a higher level, they would certainly be effective in preventing a material misstatement. Frequently with these types of reviews, as well as lower level testing, the external auditors want specific pre-determined thresholds that require investigation. This ignores the collective knowledge and judgment that management has accumulated and forces a cookbook approach to the controls. Additional guidance should reinforce the provision for management to utilize professional informed judgment in deciding what requires investigation relative to these monitoring controls. Examples of effective monitoring controls would also be helpful.

22. **In situations where management determines that separate evaluation-type testing is necessary, what type of additional guidance to assist management in varying the nature and extent of the evaluation procedures supporting its assessment would be helpful? Would guidance be useful on how risk, materiality, attributes of the controls themselves, and other factors play a role in the judgments about when to use separate evaluations versus relying on ongoing monitoring activities?**

Additional guidance would be helpful to identify when separate evaluation-type testing is more appropriate than ongoing monitoring activities. Guidance regarding the acceptable use of inquiry and observation tests would also be beneficial, as these testing methods are currently underutilized by management as a result of having AS2 requirements indirectly imposed upon them. In situations where management has determined it is appropriate to utilize separate evaluation-type testing guidance on the required frequency of testing would be appropriate. In the absence of change a control that was determined to be effective as of year-end is unlikely to become ineffective on January 1 of the following year. Increased reliance on inquiry regarding the status of, and changes in, controls should reduce/eliminate the requirement to test every significant control every year. Possibly a rotation program could be established for these key controls that requires they be updated through inquiry yearly, tested at least every three years, and re-tested if anything changes that could reasonably impact the effectiveness of the control.

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?**

Additional guidance, as noted in response to question 22, should center on the ability to more effectively utilize inquiry to update prior testing.

24. **What types 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?**

The primary purpose of Section 404 is to assure that management and the external auditor detect any material weaknesses in internal control over financial reporting, and report them accordingly. Although we support the need to integrate the external audits of controls and financial statements, in practice this has resulted in the external auditors including any errors noted in the financial statement attestation work into the Section 404 assessment. This effectively increases the scope of Section 404 to a far lower materiality level than which it was intended to operate. We believe the only adjustments (passed or made) that the external auditor should consider as part of the scope of section 404 are those that have potential to create a material misstatement. Currently the approach of the external auditors is that any passed adjustment relates to a deficient internal control, unless proven otherwise. This approach of "guilty until proven innocent" results in considerable time and effort being expended by both the external auditors and management. Additional guidance regarding the exclusion of these deficiencies, which were too minor to be detected in the Section 404 work, from the internal controls attestation review would be beneficial.

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

Although the definitions of these terms are somewhat vague, in practice the external auditors have quantified the terms by applying a percentage of pre-tax income. While that may work as an initial classifier, it is important to look beyond the dollar value to the nature of the account impacted to determine whether the error could reasonably be expected to influence an investor. For example, an error in depreciation expense, caused by a manual input error would probably not be considered as serious as an error of the same magnitude that resulted from inadequate controls over the establishment of a reserve for uncollectible accounts.

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

It would be highly inappropriate to conclude that a material weakness existed when the error was discovered as part of the closing process. The closing process is a critical component of the overall financial reporting process, and as such many of the high-level monitoring controls such as variance analysis and period –to-period comparisons are exercised during the close. Controls exercised in the closing process are part of management's system of internal control over financial reporting. Therefore, if an error in the current period financial statements is detected through the operation of a control in the closing process, management should be able to conclude that internal controls over financial reporting are effective. In this case management has clearly demonstrated that controls are adequately designed and operating effectively to assure that erroneous financial statements are not filed with the Commission.

27. **Would guidance be useful in addressing the circumstances under which a restatement of previously reported information would not lead to the conclusion that a material weakness exists in the company's internal control over financial reporting?**

Additional guidance in this area would be helpful, particularly the inclusion of examples. The guidance should clearly indicate that only restatements resulting from internal control failures should be evaluated as potential material weaknesses. Restatements resulting from new or additional authoritative guidance regarding accounting treatment of particular items, changes in interpretation of guidance, and changes in estimates that were previously based on "best-available" information should not be evaluated as control deficiencies. The guidance should also give consideration to the magnitude of the restatement, as well as the nature of the accounts affected.

28. **How have companies been able to use technology to gain efficiency in evaluating the effectiveness of internal controls (e.g. by automating the effectiveness testing of automated controls or through benchmarking strategies)?**

AEP implemented software to improve the efficiency of our Section 404 compliance efforts. The software provides a central repository for our documentation, has workflow to help assure tests are performed and reviewed by the appropriate employees, allows timely monitoring of the status of our efforts, and enables our external auditors to review information on a real-time basis.

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?**

No further guidance in this area is required.

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?**

We used COBIT, or more specifically the Information Technology Governance Institute's book *"IT Control Objectives for Sarbanes-Oxley"*. This book distills the COBIT control objectives and activities to more narrowly focus on areas relevant to COSO's Financial Reporting objective category.

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? If so, why (e.g. business reasons, auditor required, or unsure about "key" controls)? Would specific guidance help companies avoid this in the future? If so, what factors should be considered?**

The documentation requirements in year one were excessive, primarily as a result of external auditors applying an overly conservative approach to the 404 requirements. Since then there has been a significant decrease in the quantity of documentation required, as a direct result of reducing the number of controls that fall within the scope of 404 requirements. This has allowed more focus on the important controls, resulting in a higher quality of documentation. Since the process has evolved to the appropriate level of documentation, no additional guidance is required in this area, except to make it clear that process documentation only needs to cover those key controls that management is relying upon to assure there are no material weakness in financial reporting.

32. **What guidance is needed about the form, nature and extent of**

documentation that management must maintain as evidence for its assessment of risks to financial reporting and control identification? Are there certain factors to consider in making judgments about the nature and extent of documentation (e.g. entity factors, process, or account complexity factors)? If so, what are they?

No further guidance in this area is required.

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?**

No further guidance in this area is required.

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

No further guidance in this area is required.

Thank you for the opportunity to comment on the Commission's Concept Release and for considering our recommendations. We believe there is significant opportunity to create a more efficient process for compliance with Section 404 requirements, without reducing the effectiveness of the process. The recommendations we have provided should assist in this effort.

Sincerely,

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