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February 23, 2007

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

RE: File Number S7-24-06 "Management's Report on Internal Control Over Financial Reporting"

Dear Ms. Morris:

McGladrey & Pullen, LLP is pleased to submit written comments on the proposed interpretive guidance, *Management's Report on Internal Control Over Financial Reporting*. McGladrey & Pullen, LLP is a registered public accounting firm serving middle-market issuers.

McGladrey & Pullen, LLP supports the Securities and Exchange Commission's (SEC) interpretive guidance on the application of Section 404 of the Sarbanes-Oxley Act of 2002 (SOX 404) for management of issuers. Overall, we believe that this interpretive guidance will facilitate continued progress in upholding the investor protections that are so integral to the success of the Sarbanes-Oxley Act (the Act) and the market vitality that has resulted from its passage. Overall, we believe this interpretive guidance strikes the right balance between improving the effectiveness and efficiency of the process related to the internal control assessment and attestation provisions of the Act and maintaining the significant benefits of SOX 404.

We expect the proposed interpretive guidance, along with the PCAOB's proposed auditing standard, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements* and proposed auditing standard, *Considering and Using the Work of Others in an Audit*, will result in a reduction of total SOX 404 effort and total cost. We also believe that total cost reductions will likely vary based on facts and circumstances for each particular issuer, the state of its process for assessing the effectiveness of internal control over financial reporting, and the extent to which management already has effective internal control over financial reporting in place.

We also believe the benefits from the SEC and PCAOB proposals will be greatest to issuers that have not yet initially implemented the requirements of SOX 404. Although the effects of the new proposed interpretive guidance will vary from issuer to issuer, the maximum opportunities for efficiencies and cost-effectiveness related to SOX 404 are optimized when management and auditors work together to conduct the assessment and the attestation in a complementary manner, and when the auditor can make effective use of management's work. We also believe that the efforts required to comply with SOX 404 will be reduced as issuers and auditors become more experienced with the application of SOX 404.

McGladrey & Pullen, LLP supports the provision contained in the proposed interpretive guidance whereby management is to apply a principles-based approach to its internal control assessment and that such assessments should be tailored based on the size and complexity of the issuer. We also support the use of a top-down, risk-based approach to management's assessment of internal control over financial reporting that requires testing of only those controls necessary to prevent or detect material misstatements in the financial statements. Additionally, we support the requirement that management test the operating effectiveness of those controls over financial reporting considered necessary to prevent or detect material misstatements each year.

We recognize that management's assessment of internal control over financial reporting and the auditor's audit of internal control over financial reporting are two separate activities that need not be conducted in the same way; however there is important interaction between management's effort and the auditor's effort because of the auditor's consideration of the work of others. If management omits certain procedures or documentation in completing its SOX 404 assessment that the auditor could have otherwise relied on in performing his or her audit, additional effort in the way of additional testing or documentation will be required from the auditor to fulfill his or her audit responsibilities. In a nutshell, auditor effort relative to internal control over financial reporting is affected by the quality of management's assessment process, thus the more comprehensive and robust management's process, the more efficient the auditor's process. With respect to smaller issuers, especially non-accelerated filers, the impact of this trade-off could be significant. As such, we recommend that the SEC interpretive guidance include the matters discussed above as well as examples of how the scope of the auditor's work may be affected by the level of work performed by management and the nature and extent of its documentation. Interaction between management and the auditor is critical to the most efficient application of the requirements of SOX 404 and this fact should be emphasized through the interpretive guidance. Importantly however, we do believe that the total combined effort and cost of management and the auditor relative to SOX 404 will be reduced under the guidance proposed by both the SEC and the PCAOB.

We recognize there were various requests for comments within the proposed interpretive guidance, *Management's Report on Internal Control Over Financial Reporting*; however we have limited our comments to the significant matters noted below. While we are supportive of the direction of the proposed interpretive guidance, we offer the following specific comments as suggestions to improve the proposed interpretive guidance to meet the overall goal of making implementation of the requirements of SOX 404 more effective and efficient.

Monitoring Activities

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) - *Internal Control Framework* states that internal control systems need to be monitored. Monitoring is a process that assesses the quality of the performance of the system of internal control over time. This process is accomplished through ongoing monitoring activities, separate evaluations or a combination of the two. Ongoing monitoring occurs in the course of operations and includes regular management and supervisory activities, and other actions personnel take in performing their duties. The scope and frequency of separate evaluations depends primarily on assessment of risks and the effectiveness of ongoing monitoring procedures.

To be an effective source of evidence, on-going monitoring activities (often through management's daily interactions) should be supported by documentation and evidence of:

- What the on-going monitoring activities consist of;
- The process for communicating findings; and
- How exceptions, when identified, are evaluated and resolved.

Therefore, we recommend that guidance be provided to management specifically illustrating situations where monitoring activities are not sufficient and as such, direct testing would be necessary. This type of guidance would be helpful to ensure that the COSO framework for monitoring activities is appropriately considered and addressed by management. If management does not implement appropriate monitoring activities, the auditor will not be able to use such work and may determine that a control deficiency exists because monitoring is inadequate. Accordingly, we believe it is important for the SEC interpretive guidance to be clear that it does not supplant the requirements of the chosen framework.

Additionally, we believe that a lack of clarity exists as to whether a failure by management to meet the obligations imposed on management under the proposed interpretive guidance would constitute a material weakness in the monitoring component of the COSO framework. As such, we recommend that the SEC clarify the proposed interpretive guidance to indicate whether the proposed interpretive guidance has, in fact, set the measure of "effectiveness" of the monitoring component of the COSO framework.

Documentation Requirements

Although the SEC Proposal states that management must maintain "reasonable support" for its assessment, there is only limited guidance around the nature and extent of documentation that management should maintain. We agree that the documentation may take several forms and can be presented in a number of ways. However, if no consideration is given to whether or how the auditor may use this documentation, the efficiency of the overall process may be negatively affected.

We agree with the goals of the SEC and PCAOB to reduce costly and time-consuming discussions between the auditor and management regarding the extent of documentation and testing needed to satisfy the requirements of SOX 404. However, it should be pointed out that the auditor will, in all likelihood, have to perform more work and create additional documentation in order to be in compliance with PCAOB auditing standards, if management's documentation is inadequate for the auditor's purpose.

We suggest that the following elements be considered for management's documentation within the SEC guidance as we believe they would prove beneficial to the effectiveness and efficiency of the overall process:

- The design of controls over all relevant assertions related to all significant accounts and disclosures in the financial statements. The documentation should include the five components of internal control over financial reporting, including the control environment and company-level controls;
- Information about how significant transactions are initiated, authorized, recorded, processed and reported;
- Sufficient information about the flow of transactions to identify the points at which material misstatements due to error or fraud could occur;
- Controls designed to prevent or detect fraud, including who performs the controls and the related segregation of duties;
- Controls over the period-end financial reporting process;
- Controls over safeguarding of assets; and
- The results of management's testing and evaluation.

Differences in Terminology - "Financial Reporting Risks" and "Significant Accounts and Relevant Assertions"

The SEC Proposal uses the term "financial reporting risks" as the focal point for identifying controls for assessment. To identify and describe risks of material misstatement, auditors use the terms "significant account" and "relevant assertion" from the PCAOB proposal (paragraphs 24 through 29) that also includes risk factors to consider in identifying significant accounts. While we believe it is acceptable that management and the auditor use different terminology, it appears that the terms are essentially describing the same concept (what can go wrong with the financial statements). While this difference in terminology will not necessarily impact the effectiveness of management's assessment or the audit, it could impair the overall efficiency of the process. Accordingly, we recommend the SEC consider the possible implications of using different terminology and either align the terminology or discuss whether the different terms are, or are not, intended to be equivalent terms.

Strong Indicators of a Material Weakness

Certain items that are included within the PCAOB proposed standard as strong indicators of a material weakness are not included in the SEC proposed interpretive guidance. For example, an ineffective internal audit function or risk assessment function (where such a function is needed for an effective monitoring or risk assessment process) is not included in the SEC interpretive guidance.

We believe that the deficiencies referred to above are indicators of a material weakness and should be included in the SEC interpretive guidance. We also believe that having an inconsistent description of strong indicators in the SEC and PCAOB guidance will create confusion and inefficiency when management and their auditors are evaluating and comparing their findings. Accordingly, we suggest that the SEC guidance on strong indicators include the omitted indicator that is in the PCAOB proposed auditing standard.

Consideration of Fraud

We believe that effective internal control over financial reporting can help companies deter fraudulent financial accounting practices or detect them earlier and perhaps reduce their adverse effects. The SEC proposed interpretive guidance discusses management's need to evaluate financial reporting risks and consider the vulnerability of the entity to fraudulent activity. However, we believe it is important that the SEC guidance focus more attention on antifraud controls and procedures and clearly articulate the tools and techniques that should be considered by management and may be implemented to help prevent or detect fraud. Footnote 49 of the SEC Proposal refers to *Management Antifraud Programs and Controls-Guidance to Help Prevent, Deter, and Detect Fraud*, which was issued jointly by seven professional organizations. We recommend that certain relevant concepts from this guidance be incorporated directly into the SEC interpretive guidance to better articulate management's consideration of fraud risks and controls to address these risks.

Entity-Level Controls (Company-Level Controls)

Precision as it relates to the "design" of entity-level controls is lacking clarity in the SEC proposed interpretive guidance. As such, we recommend that a more robust discussion surrounding this issue be included in the section, *Consideration of Entity-Level Controls* (page 27). The precision of entity-level controls as it relates to the "evaluation" is referenced in footnote 77 of the SEC proposed interpretive guidance; however, we recommend that the SEC guidance place emphasis on precision as it relates to both the design and evaluation of entity-level controls to emphasize that although company-level controls may be designed to operate in a manner that would identify possible breakdowns in lower-level controls, they may not be designed at a level of precision that would, by itself, sufficiently address the risk that misstatements to a relevant assertion will be prevented or detected.

If management designs company-level controls to detect material misstatements without regard to their precision, the auditor would, in all likelihood, need to identify and test controls at a lower level, which would impair the efficiency of the overall process.

Thank you for the opportunity to comment on the proposed interpretive guidance. Questions concerning our comments should be directed to Bruce Webb, National Director of Auditing (515.281.9240) or Leroy Dennis, Executive Partner – Audit & Accounting (952.921.7627).

Very truly yours,

McGladrey & Pullen, LLP