From: Randall Ouchi [RandallOuchi@wilshirebank.com]
Sent: Tuesday, April 25, 2006 12:03 PM
To: Comments
Subject: SOX 404 Year 2 - Costs versus Benefits

Public Company Accounting Oversight Board
Attention: Office of the Secretary
1666 K Street, NW
Washington, DC 20006-2803

Public Company Accounting Oversight Board and the Securities and Exchange Commission:

We are considered a 'smaller company' , with a market cap just over $500 million. We have about 300 total employees, with revenues about $100 million. Our experience with our external auditors, Deloitte and Touche, in year 2 of SOX 404, was that they did not take into consideration the guidance provided by the PCAOB in May 2005.

- Deloitte continued to concentrate at the process level, using a 'bottoms-up' approach to the SOX 404 work, which adds hours and costs to us.
- They did not seem to take a 'risk-based' approach to their attest work, instead they basically followed their 'benchmark' checklists, without consideration to what we had identified as a 'key' control (i.e., our 'key controls' had to match their benchmarks).
- They did not seem to rely on much of the work of the client, even though the majority of testing was done by an independent internal audit function.
- Deloitte assigned first and second year auditors to conduct most of the SOX 404 testing, who are following their checklists. They cannot provide any true insights into what they are reviewing.

Although overall, costs were lower in 2005 than in 2004, this was because of the 'start-up' costs of implementing 404 requirements. Going forward, our costs of compliance with 404 will not be expected to decrease markedly for 2006, and will eventually ratchet upwards. Our costs for 404 attest increased our external audit costs at least $250,000. Pre 404, our external audit costs were only about $150,000. Post SOX 404, $400,00 to $500,000. The main beneficiaries of 404 attest work have been the public accounting firms. If they were public companies, they would be reporting 'windfall' profits over the last two years because of the SOX 404 work.

From my over 25 years experience as an Internal Auditor, the benefits of 404 requirements have been minimal. Yes, there have been improvements in identifying and documenting controls in the company. HOWEVER, 404 REQUIREMENTS WILL NOT PREVENT AN ENRON, WORLDCOM OR OTHER SIMILAR FRAUDS FROM RECURRING AT OTHER COMPANIES (which all occurred mainly because of executive defalcations, not process level problems) . All that Section 404 does is create a lot of duplicative work, that when analyzed means little to prevent large financial frauds (maybe smaller ones). The cost versus benefits of 404 in my judgment, are not worth the effort.

In my opinion, some of the other provisions of SarbOx are more beneficial to controlling higher level of financial reporting risks such as the requirements to rotate audit partners, elevating the importance and duties and role of Audit Committees, and fraud controls, with minimal costs to the company. I would suggest that reasonable SOX 404 requirements be revised to be similar to those required under the FDIC Improvement Act (FDICIA), which since implemented in the early 1990's has seemed to have been effective in reducing the number of financial institution failures.

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