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Media General

**Stephen Y. Dickinson**
Controller and Chief Accounting Officer

May 3, 2006

U.S. Securities and Exchange Commission
Attention: Nancy M. Morris, Secretary
100 F Street, NE
Washington, D.C. 20549-1090
File Number 4-511

Public Company Accounting Oversight Board
Attention: Office of the Secretary
1666 K Street, NW
Washington, D.C. 2006-2803

**Reference: SEC/PCAOB Internal Control Roundtable – May 10, 2006**

On behalf of Media General, Inc., we appreciate the opportunity to submit comments and recommendations in connection with the SEC/PCAOB Roundtable on Internal Controls scheduled to be held on May 10, 2006.

We believe that the Sarbanes-Oxley Act has been successful overall in improving the quality of financial reporting and corporate governance for public companies. Section 404 of the Act along with the PCAOB's Auditing Standard No.2, "An Audit of Internal Control Over Financial Reporting Performed in Conjunction with an Audit of Financial Statements" (Audit Standard No. 2), have focused significant attention on internal controls. We have always valued strong internal controls, which have enabled us to produce high quality financial statements and meaningful disclosures in our SEC filings.

We are writing today with recommendations on changes to the Sarbanes-Oxley Section 404 legislation and implementing rules and regulations that we feel are more in line with the spirit of the legislation while significantly reducing the compliance burden that large public companies currently face.

In summary, these recommendations are:

1. **Require external auditors to form an opinion on management's assessment of internal controls only, and NOT require a separate audit of internal control**

2. **Require external auditors to allow "rotational" (less frequently than annual) testing of controls that have operated effectively without exception upon repeated testing**

3. **Require external auditors to rely on management's work in testing for low-level, low-risk transactional controls**

4. **Require the PCAOB (and external auditors) to provide additional clarity on materiality thresholds (for what constitutes a significant deficiency and a material weakness) over the "rule-of-thumb" percentage of net income thresholds currently being used.**

Additional information on each of the recommendations is included below.

<u>Recommendation #1:</u> **Require external auditors to form an opinion on management's assessment of internal controls only, and NOT require a separate audit of internal control.**

For publicly reported material weaknesses tracked from June 2005 through March 2006, 76% of them were identified by management, while only 24% were identified by the external auditor in conjunction with management or by the external auditor alone. Clearly, the vast majority of material weaknesses have been identified through the efforts of management.

In addition, it has been clear over the past two years that investors are treating material weakness disclosures with relative indifference. If one excludes the small subset of companies that have disclosed multiple material weaknesses, the overall negative market reaction to a material weakness disclosure relative to the S&P 500 market index[1] is less than 0.5%.

One may conclude that material weakness disclosures, in the vast majority of cases, that are unearthed by management testing processes contain no new information for investors and have little impact on investor confidence. Given the lack of significant investor reaction, companies have little or no disincentive to disclose material weaknesses, even in the absence of a separate internal controls audit by an external auditor. As you are aware, the PCAOB chose to write Audit Standard No. 2 to require the auditor to conduct an audit of internal control, even though Section 404 of the Act did not require such an audit.

We recommend, therefore, that the requirement for a separate audit of internal controls by external auditors be eliminated.

<u>Recommendation #2:</u> **Allow external auditors to perform "rotational" (less frequently than annual) testing of controls that have operated effectively without exception upon repeated testing.**

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[1] Market reaction 5 days prior and 30 days after material weakness disclosure; Corporate Executive Board research; http://www.executiveboard.com

The Section 404 compliance cost burden remains high. Companies having greater than $1 billion in revenue spent over $9 million[2] on average in total Section 404 compliance costs. The median decline in audit fees for large companies has been a mere 2.4%[3] in year 2. The vast majority of this cost includes testing for the effectiveness of routine, low-level controls. Fewer than 1% of disclosed material weaknesses in year 1 related to "tone-at-the-top" issues, confirming the disproportionate focus on testing transactional controls.

Detailed transaction-level controls actually do very little to prevent the types of fraud the Act was meant to address, and the lack or failure of these controls was not the primary cause of the corporate governance failures of the past. Rather, these failures were precipitated by unethical practices, collusion and override of controls by senior management. Other sections of the Act which provide for expanded whistle-blower protection and increased accountability for wrongdoing are much more effective in preventing and detecting this type of fraud than the implementation of Section 404.

Despite the 2005 SEC and PCAOB guidance calling for a more principles- and risk-based approach to scoping, our experience has been that auditors remained reluctant to change audit practices. It must be pointed out that the PCAOB's own inspection reports on the Big 4 accounting firms highlighted auditing deficiencies primarily related to transactional controls, making the accounting firms much less willing to embrace risk-based controls scoping.

We are therefore recommending that external auditors be allowed more flexibility in determining what transactional controls are tested and when, based on prior performance of the control and risk of material changes to the control.

**Recommendation #3: Require external auditors to rely on management's work in testing for low-level, low-risk transactional controls.**

53% of large companies[4] indicate that their primary discussion issue and area of frustration with their external auditors is the auditors' refusal to rely on managements' testing. We believe that auditors should have more flexibility under the implementing rules and regulations (and, specifically, PCAOB Audit Standard No. 2) to rely on management's work, including process owners, for areas that are not considered high risk. For example, automated transaction controls or controls over routine processes are lower risk and can be tested by process owners. It is important that process owners are accountable for effective controls, but auditors believe AS2 prevents them from relying on process owner assessments which causes duplicate testing and is disruptive to operations. Auditors should be allowed to rely on the quality of managements' overall compliance approach, including the presence of a robust compliance environment and entity-level controls.

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[2] Corporate Executive Board research; http://www.executiveboard.com
[3] Source: Compliance Week; http://www.complianceweek.com
[4] Corporate Executive Board research; http://www.executiveboard.com

We are therefore recommending that external auditors be required to rely on management's work in testing for a mutually agreed-upon universe of low-risk controls.

**<u>Recommendation #4:</u> Require the PCAOB (and external auditors) to provide additional clarity on materiality thresholds (for what constitutes a significant deficiency and a material weakness) over the "rule-of-thumb" percentage of net income thresholds currently being used.**

There remains a significant need among companies for clarification on what control exceptions constitute material weaknesses and significant deficiencies. In addition to qualitative filters, external auditors are most commonly applying 1% of net income and 5% of net income thresholds to significant deficiency and material weakness evaluations. These thresholds, however, unfairly and severely penalize companies in low net income or negative net income situations, in addition to preventing fair and consistent evaluation of deficiencies across multiple periods.

Given the large degree of subjectivity around controls exception evaluations, we recommend that the PCAOB provide examples of findings that should and should not be considered a significant deficiency or material weakness. The controls environment context should also be considered to distinguish a "one-off "exception from a systemic control issue.

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We appreciate the opportunity to submit these recommendations. We believe that, if implemented, they will result in a working version of Section 404 of the Sarbanes-Oxley Act that more closely represents the original intent of the legislation as regards the requirement that "... each registered public accounting firm...shall attest to and report on, the [internal control] assessment made by the management of the issuer..."

Very truly yours,

Stephen Y. Dickinson

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