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**To:** Comments
**Subject:** Docket 21

To all,

I first would like to thank you for the opportunity to provide feedback. I think it's very important for the board to hear first hand from people who have been directly impacted by Section 404.

Let me start by saying flat out that my coworkers and I are utterly disgusted and outraged by what Section 404 has done to our workplace. There's really no other way to describe it. It is very unfortunate that what should have been an attempt to address fraud by executives turned into a massive misguided attempt to prevent any time of accounting error from ever occurring. That is impossible, and has resulted in incredible cost to U.S. public companies – not just in terms of audit $'s, but also in terms of lost efficiency, worker satisfaction, people laid off (to pay for all this), and even increased errors.

It's very important to distinguish between fraud by executives and true errors by accountants. They are very different things. The scandals at Enron and Worldcom were not errors by accountants. They were intentional fraud and/or mistatements by executives at those companies. All of this was directly or indirectly driven by the large sums of money the executives had at stake, which was all dependent on the financial results of the companies and meeting analysts earnings expectations.

The good news is that Sarbanes-Oxley has done a good job of addressing intentional financial mistatements (fraud) by executives. Most people could name the items needed to address this fraud without ever reading or knowing anything about Sarbanes. Definitely it needed to be made very clear to executives that fraud (ie. normally involving manipulation of earnings numbers) will no longer be tolerated. Along with that comes clear guidelines of what the penalties will be and the requiring of positive certification each reporting period that they have not committed fraud. Another big item was providing a mechanism for employees to report fraud without repercussion (although this can be a little dangerous since it can potentially be manipulated – but the good hopefully will outweigh the bad).

Aside from the items above, the other big item that needed to be addressed was the lack of audit scrutiny by the partners in the auditing firms. Again, money was the root cause of audit partners not taking measures to dig deep enough or push high enough on high level issues that normal audit procedures would not detect. The last thing the big CPA firms wanted to do was lose the audit engagement, since it was their doorway into big profit tax and consulting work. But clearly the rules on this have changed, and this problem area has been effectively addressed.

So the good news is that the root causes of what brought about Sarbanes-Oxley have been well addressed. Granted, there will be future intentional mistatements by executives – personal financial greed and pressure to meet the forecasts has not gone away. But at least the expectations and penalties are very clear now. So this is by no means an across the board indictment of all Sarbanes-Oxley.

But the bad news is that Section 404 went way beyond what was necessary and decided to take on the impossible (but extremely expensive) task of trying to prevent not only fraud/financial mistatement by executives, but all possible errors. This is absolutely insane. And it has caused incredible chaos at my company and the companies of my peers.

As I overheard my former boss say to an auditor out of frustration the other day, "I can't guarantee I'll never make a mistake." But unfortunately, that's what Section 404 has attempted to do. Again, this wasn't the problem in the first place. Intentional mistatement by executives isn't a "mistake."

And the sad thing is that my department is actually making mistakes now that we never did – directly as a result of Section 404. We have been mandated to have so much separation of duties that tasks that were once simple and straightforward have now become unduly complicated and involve a number of people. As a result, the work flow is constantly interrupted while waiting for someone else to now do their piece, which forces us to set things down and restart them constantly. And items such as journal entries often get keypunched three times because of the separation of duties/system accesses. We now have to deal with keypunch errors that never existed before.

These types of things have caused us to make numerous mistakes that we've never made in the past. And we've been given no leeway to use judgement anymore as to how much separation of duty we consider necessary for each area. Section 404 is quoted as a blanket statement over everything. It's very frustrating. We at the lower levels were not the problem in the first place, yet we are the ones suffering from the results of all this.

Section 404 has caused errors in many other ways – both direct and indirect. The amount of time it takes away from both the staff accountants and managers is obscene and directly impacts the quality of our work. We now have to find time to go over things constantly with regular internal auditors, our internal Sarbanes compliance people, and the external auditors. And of course now there are two external audits – one compliance and one financial. This time is stolen from the time we used to be able to spend on actual accounting work. As a result, my people are making mistakes they have never made in the past simply because they don't have sufficient time to concentrate on their actual work.

And simply working longer hours is not a quick fix. We have to remember that people only have so much mental energy to use each day. Again, if you have to spend half of every day digging things up and explaining things to the numerous auditors we now have to deal with, you are often half burned out by the time you get to your actual accounting work. It feels like the work itself has taken a huge back seat to the auditing of the work. Several people have noted that it feels like you do one small task, and then numerous auditors come out of the woodwork and audit it to death. And simply adding staff (which is very tough to get approved) isn't always the answer since there is only so much good meaningful work to do. These are real people, not machines.

And specifically for my company and accounting department, we are still slowly recovering from the fact that we were going through a massive systems implementation at the time that we were also implementing Section 404. So instead of our people being able to spend the time they needed learning all the intricities of the new system and making sure the initial setup was done correctly, we instead spent day after day in rooms with Sarbanes consultants explaining over and over again what we do and how everything works. As a result, numerous things were missed or done poorly in the implementation that would have been no-brainers if we had been allowed to spend the time needed. I think sometimes that people associated with Sarbanes forget that we actually have jobs to do. So now even after a couple years have passsed we are still trying to fix the initial systems setup and and learn how certain things work – things that would have been done easily while the systems implementation team was in place and ready to help.

Another depressing outcome of Section 404 is the massive amount of administration we now have to go through to do routine tasks. I currently serve as a supervisor, and rather than getting meaningful work done – my days are typically spent reviewing SOX narratives, preparing things to be signed by my manager, signing/dating/initialing paperwork, responding over and over again to the same compliance type questions, pulling items for the various auditors, re-explaining how things work to various auditors, etc. It has taken the quality of my workday and other managers and reduced it to endless administration.

Not a day goes by that someone in my area doesn't think about looking for a job at a non-public company. But we hate to be forced out of jobs that we used to get a great deal of satisfaction out of. Unfortunately, several very good people have left out of frustration over what Section 404 has done to their jobs. And ironically, by losing these intelligent knowledgable people, our risk of errors has increased. Again, part of Section 404 backfiring.

And perhaps that is what much of this boils down to. Section 404 has inadvertently led to a tremendous decrease in job satisfaction amongst accountants. Every single accountant I know that is impacted by Section 404 (at other companies also, not just mine) absolutely hates it. Hate is a strong word, but that is the sentiment. I have never seen so much frustration as I have with Section 404. We've always had good, motivated accountants that thrive on challenges. But Section 404 has taken a great deal of this away from them. It is punishing them for problems that they couldn't possibly have been further away from causing.

The reason I have taken the time to write the above items is that I think it's important to understand this in order to talk about the auditing standard. Ideally we would want much of Section 404 to be abolished and return the control of the Accounting Departments back to the controllers. The best way to minimize true accounting errors is the same as it has always been – hire intelligent motivated accountants and have intelligent motivated managers in place to oversee things. You can put all the rules and controls and narratives, etc., in place that you want, but "you can't legislate stupidity." True mistakes can and will continue to happen no matter how many controls you have. But if you have good people in place – and give them sufficient time to do their job (ie. not spending all their time on admin) – you should be able to minimize the materiality of most errors.

So the single biggest improvement we can make with regards to auditing is to minimize the time impact on the accounting departments. Having to explain the same things over and over again to multiple auditors – internal and external – steals time away from actually doing the work properly. Every minute spent making copies and pulling backup and re-explaining things is a minute we've taken away from our accountants concentrating on doing actual work. The media appears to only be focused on the external $ cost to companies – we seem to have completely ignored the incredible drag on our people's time and their own internal motivation to go to work and do a good job every day.

So anything you can do to decrease the time impact on our accounting departments will be incredibly appreciated. Again, most of the controls that have been added have little to do with the real issue of the large $'s at stake that drove executives to manipulate financial results and that drove CPA firms to not address the real risk areas in the first place. I guess the new joke is "how many accountants does it take to change a lightbulb?" Unfortunately, after Section 404 the answer might be quite high. You'd probably need one to authorize the lightbulb change, one to supervise the change, one to physically twist the bulb out, one to bring the new bulb over, one to screw the new bulb in, one to check off that the bulb was changed, and then a minimum of three auditors to verify that everyone checked the right boxes – regardless of whether the bulb was properly changed or not. So I guess the answer would be nine. But unfortunately this is no joke.

We will be anxiously awaiting news on what will hopefully be some good changes. Thank you for your time.