

denverpost.com

THE DENVER POST

business

Feds to ease corporate curb

Sarbanes-Oxley Act, passed in scandals' wake, is too vague and costly, many say In mid-December, the SEC will clarify a key section of the act that requires companies to test and audit internal controls.

By Andy Vuong and Tom McGhee
Denver Post Staff Writers

Article Last Updated: 11/19/2006 05:08:26 PM MST

Regulators are in the process of easing requirements placed on business by a controversial provision of the 2002 Sarbanes-Oxley Act, which was passed in the wake of the Enron and WorldCom scandals to tighten accounting procedures and board oversight at publicly traded companies.

Specifically, the U.S. Securities and Exchange Commission in mid- December will issue formal guidance that will detail, for the first time, what the agency expects companies to do to comply with section 404 of the act, said John Nester, an SEC spokesman.

As it is interpreted now, section 404 requires companies to document and test their internal controls and have them checked by independent auditors.

Businesses have said that the section is too broad and has forced them to spend millions of dollars to

comply with the law.

Colorado companies are hopeful that the pending changes will help cut those costs.

"Whether it helps to the tune of \$100 a year, or whether or not you get some real materiality provisions that allow us to be much more pointed in where our controls dollars go, remains to be seen," said Kevin O'Hara, president of Level 3. "We're optimistic."

O'Hara said Level 3, based in Broomfield, has "spent a lot of money" to comply with Sarbanes-Oxley.

"The amount that we spent to get through the first iteration of it was pretty staggering," he said.

Consumer groups are cautioning that Sarbanes-Oxley could lose its effectiveness if the SEC relaxes section 404 too much.

Businesses "want to make the standard go away or they want to make it so scaled back that it doesn't offer meaningful protections or doesn't hold companies accountable," said Barbara Roper, director of investor protection for the Consumer Federation of America, a consumer advocacy group based in Washington, D.C. "We believe there's certain non-negotiable items if you're going to have an effective rule on internal controls."

Specifically, Roper said companies should be required to test their internal controls annually.

Businesses, large and small, argue that the testing requirements right now are too burdensome.

Bob Diamond, chief financial officer for Wild Oats Markets, said the Boulder- based company's audit expenses doubled after Sarbanes-Oxley was passed.

Advertisement

FACTORY OVERSTOCK BLOWOUT!

Leather High-Back \$219

Leather Mid-Back \$199

Bookcases Various Sizes \$149-\$259

2-Drawer Lateral File \$399

OFFICE LIQUIDATORS
Profit From Our Experience

11111 W. 6th Ave/ LAKEWOOD
Between Kipling & Simms

303-759-3375
www.OfficeLiquidators.com

Print Powered By FormatDynamics™

denverpost.com

THE DENVER POST

"We needed to hire several additional people that are fully dedicated to compliance," Diamond said. "There is also an additional external auditing fee."

The law's impact has also hit private companies, many of them family-owned, forcing them to spend more time and money on audits.

MediaNews Group, which owns The Denver Post, has had to hire additional staff for an internal audit department.

The private company must comply with Sarbanes-Oxley requirements because it has public debt and files financial statements with the SEC.

MediaNews president Jody Lodovic said there is "some hope" that the law will be relaxed, but nothing has changed yet. As such, the company still plans to bring in an independent director.

Kirk Stevens, director of internal audit for Denver-based Frontier Airlines, said Sarbanes-Oxley caught businesses by surprise because they weren't given guidance on how to comply.

"There was guidance given to public accounting firms on what they needed to do but very little guidance given to public companies on what they needed to do," Stevens said. "So some people went overboard."

Frontier pays \$50,000 to \$75,000 annually to have external auditors sign off on the company's financial reports, Stevens said.

The SEC has been working with the Public Company Accounting Oversight Board on the process of easing the burdens of section 404 on business. The oversight board was created by Sarbanes-Oxley to regulate auditors.

The staffs of the agencies said in a joint statement last week that they have made "considerable progress" in working to reduce the "unnecessary or disproportionately high costs" of section 404.

Nester, the SEC spokesman, said the agency will review feedback from business after the initial guidance is issued in mid-December and will release a final version by April 2007.

"It is about time that (the two agencies) took a hard look at the burden of (Sarbanes-Oxley), in particular section 404 - and not just for political reasons, but for actually doing an unbiased and effective cost-benefit analysis," said Sanjay Anand, chairman of New York-based Sarbanes-Oxley Institute, which was created in 2003 to help companies with compliance issues.

Anand estimated that businesses have spent \$20 billion collectively over the past three years to be compliant with Sarbanes-Oxley.

Proponents of changes in Sarbanes-Oxley also say the law's stringent requirements have pushed companies away from the U.S. securities markets.

But former SEC chief accountant Lynn Turner said many factors, such as the devaluation of the dollar, have affected the competitiveness of the U.S. markets.

"Rolling back protections for investors ... that provide protections against what has been ongoing corporate scandals will make our markets less attractive to investors, not more so," said Turner, who is now with Broomfield investor advisory firm Glass, Lewis & Co.

Staff writer Andy Vuong can be reached at 303-954-1209 or avuong@denverpost.com.

Advertisement

FACTORY OVERSTOCK BLOWOUT!

Leather High-Back \$219

Leather Mid-Back \$199

Bookcases Various Sizes \$149-\$259

2-Drawer Lateral File \$399

OFFICE LIQUIDATORS
Profit From Our Experience

11111 W. 6th Ave/ LAKEWOOD
Between Kipling & Simms

303-759-3375
www.OfficeLiquidators.com

denverpost.com

THE DENVER POST

Staff writer Tom McGhee can be reached at 303-954-1671 or tmcghee@denverpost.com.

Advertisement

FACTORY OVERSTOCK BLOWOUT!

Leather High-Back  **\$219**

Leather Mid-Back  **\$199**

Bookcases  **Various Sizes \$149-\$259**

2-Drawer Lateral File  **\$399**

OFFICE LIQUIDATORS
Profit From Our Experience

11111 W. 6th Ave/ LAKEWOOD
Between Kipling & Simms

303-759-3375
www.OfficeLiquidators.com