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November 20, 2003

Office of the Secretary  
Public Company Accounting Oversight Board  
1666 K Street, N.W.  
Washington, DC 20006

**RE: PCAOB RELEASE NO. 2003-017;  
DOCKET MATTER No. 008**

Office of the Secretary:

This letter is sent to register the California State Teachers' Retirement System's (CalSTRS) support of the Public Company Oversight Board (PCAOB) proposed auditing standard regarding the attestation to the adequacy of internal controls. As you are aware, CalSTRS is a public pension fund, established for the benefit of California's public school teachers over 90 years ago. CalSTRS has assets of approximately \$103 billion; \$43 billion of this amount is invested in the domestic equity market. These assets represent the retirement plan for approximately 715,436 participants. The long-term nature of CalSTRS' liabilities has made us keenly interested in efforts to restore investor confidence in the capital markets. CalSTRS supports the efforts of the PCAOB to improve standards of financial reporting by publicly traded companies and to improve the ability of investors to rely on the financial statements put forth by corporations.

CalSTRS believes that the enactment of the Sarbanes-Oxley Act of 2002 was an important milestone for investors, but we also recognize that the great majority of the implementation of the legislation falls to the Securities and Exchange Commission (the Commission) and the PCAOB. We support both the Commission's and the PCAOB's efforts to accommodate the timelines articulated in the Sarbanes-Oxley Act. We do not intend to answer all 31 questions put forth by the PCAOB in its requests for comment on the issue, but we do want to register our support for an integrated audit standard and for the continued supremacy of the board of directors as the fiduciary responsible to investors in public companies.

CalSTRS believes that the external auditor should attest to and report on the internal controls assessment made by management/the issuer. Further, we believe that the board's independent audit committee should set the policies and standards relating to internal controls and have in place a procedure for informed knowledge of their application. We do not believe that the external auditor should evaluate the audit committee; we believe the

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standards of diligence and duty expressed in the audit committee charter, along with the various attestations and certifications required by the SEC, and the Sarbanes-Oxley Act should perform this function for investors. We believe that such a rule would pose an impossible conflict of interest for both the audit committee and the external auditor and that this tension would not serve the investors' goal of obtaining a fair opinion on the accuracy of the issuer's financial information.

CalSTRS does not believe that mandating that the external auditors perform a separate audit of the internal controls is cost effective for investors; on the one hand, the PCAOB seems to reason that the most burdensome costs will be assumed in the first year of the rule and that economies will come in subsequent years. That may be a fallacy, as seemingly, these economies would come from routine checking of the criteria/ standards/procedures imposed in the first year. This would make it a rote exercise and of little benefit to investors; so, why mandate the establishment of a system whose maintenance will not do the job that the PCAOB envisions? The independent directors are the members of the audit committee and have a fiduciary responsibility to investors in that capacity; we support letting them fulfill that responsibility. We believe that the independent audit committee should set up controls and procedures to mitigate the risks associated with inadequate internal controls and/or inaccurate financial reports. The PCAOB may want to review the charters and opine on the audit committee's diligence in mitigating the risks to the public.

Finally, we believe that the external audit opinion should be a single one; we do not support the proposal that the integrated audit result in two opinions: one on internal controls and one on the financial statements. We believe that this will be confusing to investors and will not aid in the goal of more reliable financial reporting. It is possible that internal control over financial reporting could be bad and that the reported figures present a true and accurate record, but we think it best to contain this in a single opinion.

Thank you for the opportunity to comment on this matter. If you would like to discuss this letter, please feel free to contact me directly. We are filing this comment electronically in the interest of timeliness, but you may reach me at 916-229-3706 by phone and certainly by the email address on this communication.

Sincerely,

A handwritten signature in blue ink that reads "Jack Ehnes". The signature is written in a cursive, flowing style.

Jack Ehnes  
Chief Executive Officer