

---

**From:** Wendy Huang [mailto:Wendy.Huang@MolinaHealthCare.Com]

**Sent:** Monday, February 26, 2007 4:59 PM

**To:** Comments

**Subject:** PCAOB Rulemaking Docket Matter No. 021

- PCAOB Question: Does the proposed standard clearly describe how to use a top-down approach to auditing internal control?

My Comment: Is the top-down approach of using the risk assessment to be performed from scratch each year? Once it is done the first year to determine the linked significant processes and accounts, and assuming little or no changes in subsequent years, the risk assessment should not have to be reperfomed annually, correct?

- PCAOB Question: Should the standard allow an auditor to conclude that no deficiency exists when one of the strong indicators is present? Will this change improve practice by allowing the use of greater judgment? Will this change lead to inconsistency in the evaluation of deficiencies?

My Comment: An auditor should NOT be allowed to conclude that no deficiency exists if one of the strong indicators is present (unless the restatement of financial statements is not due to an error, such as the acquisition or disposal of a business segment). It may not necessarily lead to a material weakness, but a control or significant deficiency should at least be concluded if one of the strong indicators is present (with the exception stated above). If one of the strong indicators has been identified, there has to have been a deficiency/breakdown somewhere in the process—it's just a matter of finding where it occurred. Otherwise, it would lead to inconsistencies in the evaluation of deficiencies, as some auditors would conclude that a deficiency exists and some would not. That leads to more consistency problems than inconsistencies in the level of deficiency concluded.

- PCAOB Question: Does the proposed standard appropriately incorporate the value of cumulative knowledge?

My Comment: It is still not entirely clear. My interpretation of the proposed revision to the standard is that the only affect of obtaining and using cumulative knowledge is just doing a walkthrough instead of full testing, that the only way that testing can be reduced is by doing a walkthrough. Is that correct? Rotational testing is still not allowed? Could we not rotate testing of "secondary" controls? For example, if one risk is mitigated by several, say 5, "secondary" controls, could the auditor not rotate the controls and test maybe 2 of those secondary controls each year?

- PCAOB Question: Will the proposed standard's approach for determining the scope of testing in a multi-location engagement result in more efficient multi-location audits?

My Comment: Yes, it will be more efficient, but the proposed standard's approach is still not too clear on exactly how to apply the risk-based methodology, as auditors tend to interpret risk based on materiality, which in turn leads to the amount of coverage.

- PCAOB Question: Does the proposed standard on auditing internal control appropriately describe how auditors should scale the audit for the size and complexity of the company?

My Comment: No, still not clear on how to scale down the audit.

Wendy Huang, CPA

**Director of Internal Audit  
Molina Healthcare, Inc.**

200 Oceangate, Suite 1050 | Long Beach, CA 90802

: 562.435.3666, ext. 118381 | : 562.951.1564 | : [Wendy.Huang@MolinaHealthcare.com](mailto:Wendy.Huang@MolinaHealthcare.com)

Confidentiality Notice: This communication, and any files attached, contains confidential information that may be privileged. The information is intended only for the use of the individual(s) or entity to which it is addressed. If you are not the intended recipient, any disclosure, distribution or the taking of any action in reliance upon this communication is prohibited and may be unlawful. If you have received this communication in error, please notify the sender immediately by reply e-mail and destroy the original information. Thank you.