Dollar Thrifty Automotive Group, Inc.

September 14, 2006

Nancy M. Morris
Secretary, Securities and Exchange Commission
100 F Street NE
Washington, D.C. 20549-1090

Subject: File Number S7-11-06

As an accelerated filer in our third year of compliance with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002 ("Act"), the Dollar Thrifty Automotive Group, Inc. ("DTG") believes it is in a good position to provide useful feedback to the Commission in response to Concept Release Number 34-54122 concerning management's reports on internal control over financial reporting and our impressions of additional guidance necessary to ensure the ongoing effectiveness and efficiency of the Act. This letter sets forth DTG's position on various topics in accordance with the questions posed in the Concept Release and, therefore, is divided into four broad comment sections: Introduction, Risk and Control Identification, Management's Evaluation, and Documentation to Support the Assessment.

Introduction

In the introduction section of the Concept Release, the Commission covered many topics that we have summarized into the following sub-sections: Additional Guidance, COSO Control Framework, May 16, 2005 SEC Staff Guidance, and The Role of External Auditors in Management's Assessment.

Additional Guidance

We concur with the Commission's recommendation to provide additional guidance targeted specifically to management's process to assess the design and effectiveness of internal control over financial reporting.

We believe additional guidance differentiating the requirements of management from those of the external auditor would be useful to all registrants regardless of size, and that its provision in the form of a rule is preferable to interpretive guidance. The guidance should articulate broad principles and also provide detailed guidance on the implementation of those principles, and acknowledge the inherent differences between management's assertion regarding internal control over financial reporting, which emphasizes the design and effectiveness of controls as of year-end, and the external auditor's integrated audit, which emphasizes the design and effectiveness of controls both as of year-end as well as throughout the period under audit.

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We would recommend that the guidance allow for differing approaches to assessment of internal control over financial reporting by registrants. That said, we believe the most appropriate balance of effectiveness and efficiency in management's assessment process lies in a formal top-down, risk-based process guided by internal control experts who educate management in their responsibilities and the results of effectiveness testing to support the assessments generated by management with regard to the design and effectiveness of their controls, rather than a process that attempts to educate diverse sets of management in internal control theory, documentation techniques and testing methodologies. Management should not have to become experts in control documentation and testing to become experts in the proper design and implementation of controls.

COSO Control Framework
Although the vast majority of Companies have chosen the COSO framework due to existing exposure to the framework by both internal personnel and external auditors, and the related desire to minimize additional cost related to the external audit, we believe the Commission should continue to allow the selection of a control framework to be a Company-specific decision. Companies could benefit from the development of additional frameworks as many aspects of the COSO framework are difficult to put into practice or objectively measure, particularly at the entity-level related to the control environment.

May 16, 2005 SEC Staff Guidance
With regard to the May 16, 2005 guidance issued by the Commission, we believe there were important concepts and clarifications contained therein that were not necessarily in congruence with PCAOB Auditing Standard Number 2 ("AS2") and, therefore, not fully embraced by registrants or their external auditors hindering the overall efficiency of the compliance effort. The following examples from the May 16, 2005 guidance represent areas where we believe differing objectives and interpretations between management and external auditors have contributed to less than optimal efficiencies in the compliance process:

- The Commission's stated purpose for management's assessment of internal control over financial reporting is to provide "reasonable assurance" that management will "identify material weaknesses that have...more than a remote likelihood of leading to a material misstatement in the financial statements". Although this appears to be in congruence with AS2, paragraph 4, in practice, external auditing firms emphasize the potential aggregation of minor deficiencies to the extent that the assessment process incorporates a much broader scope including accounts with balances approximating quantitative financial statement materiality levels but with low inherent or residual qualitative risk, and more detailed testing requirements than necessary to provide the required level of assurance. More specific guidance on this area would provide registrants with the ability to solidify their assessment scope and processes.

- The Commission has stated that the desired approach to scoping should "devote resources to the areas of greatest risk and avoid giving all significant accounts and related controls equal attention without regard to risk", and that "management generally will consider both qualitative and quantitative factors" to determine the relative risk of significant accounts and "adjust the nature, timing, and extent of testing from year to year". However, AS2 appears to send conflicting messages with regard to risk assessment and scoping (as does SAB99), which hamper the efficiency of the scoping process. For example, AS2, paragraph 60 states that "when identifying significant accounts, the auditor should evaluate both quantitative and qualitative factors". Meanwhile external audit emphasis on AS2, paragraph 22 leads in practice to the setting of low quantitative risk factors and the general practice by external auditors of only using qualitative factors to include items below quantitative guidelines rather than to "determine if amounts above or below that threshold must be evaluated". We believe opportunity exists to reduce our overall number of accounts in scope and alter the nature, timing and extent of certain other procedures to minimize the number of items required for test samples in non-critical areas without eroding the overall relevance of our assessment process.

- There are a number of instances where, due to an audit difference discovered during the financial statement audit process rather than the internal control assessment process as a result of an error rather than the ineffectiveness of a particular control activity, external auditors appear compelled to note a Control Deficiency. According to your Staff Statement the Commission's implementing rules do not automatically presume "that a material weakness in internal control over financial reporting must be found to exist in every case restatement resulting from an error". We believe this guidance should be extended to lower levels of deficiency. In practice, the external auditors appear to presume that a relationship exists between audit differences and control deficiencies, which is not the case in every instance.

- Due to our decision to house a group of control experts within the Internal Audit function to assist management in documenting their controls, advise them on proper control design and perform independent effectiveness testing for management to use as part of their annual assessment, we fall in the minority from a year-three process perspective as most groups are moving to extricate Internal Audit from the compliance process. However, due to inherent economies of scale from external audit reliance as well as documentation, testing and process consistency, we believe our process represents the value position for our organization and is supported by the Commission's statement in the May 16, 2005 guidance (although the statement refers to the independence of external auditors, we believe it is equally applicable internally) that "as long as management, and not the auditor, makes the final determination as to the accounting used..., and the auditor does not design or implement accounting policies, such auditor involvement is appropriate and is not indicative of a deficiency...". We believe further guidance in this area would serve to clarify the legitimacy of our process and aid other registrants in maximizing the overall efficiency of their effort.

The Role of External Auditors in Management's Assessment
Although we acknowledge the value to shareholders of an annual independent verification of the accuracy of management's assessment process, we believe the requirement for the external auditors to provide an opinion on internal control over financial reporting itself in addition to the opinion provided on management's assessment process does not add value to our shareholders as it is duplicative of management's assessment and inefficient to the overall external audit process.

In practice, we believe it is very difficult for the external auditors to perform the "integrated audit" called for by AS2 due to the inherent scoping differences between a financial statement audit and an audit of internal control over financial reporting. Because we seek to minimize external audit costs by leveraging the independent work of our internal audit group, and because a financial statement audit requires control testing throughout the period under review versus the audit of internal control over financial reporting that requires control testing "as of" year-end, we are forced to not only perform extra work internally that is not relevant to our year-end assessment to support the external audit process, but moreover, the external auditors perform duplicative procedures due to issues related to resource timing and scope. For example, if a change to a process or system related to an account within our compliance scope occurs mid-year, only the process or system in place as of year-end is relevant to management's assessment (although any change would be evaluated for 302 disclosure purposes quarterly), but both systems or processes are relevant to the financial statement audit.

Risk and Control Identification
As the Commission has previously stated in the May 16, 2005 guidance, we agree that a top-down, risk-based approach is appropriate for formulating an efficient and effective assessment process to provide "reasonable assurance" that any material weaknesses in our internal control over financial reporting are identified in a timely manner, and we concur with the Commission in its view that one major implementation issue with this approach was an overly conservative application of AS2 by the external auditors, particularly in years one and two.

We believe that the Commission should offer specific guidance surrounding the preferability of this approach and emphasize conformance of PCAOB Standards with the SEC guidance. In our view, a top-down, risk based approach should not include "bright line" quantitative thresholds as suggested by external audit firms, but rather, as the Commission has stated before in its May 16, 2005 guidance, utilize any quantitative analysis as a starting point from which accounts could be included <u>above or below</u> the threshold based on qualitative factors such as those outlined in AS2, paragraph 65.

Furthermore, we have experienced resistance on altering the nature, timing and particularly the extent of procedures from external auditors based on quantitative factors. In our case, the external auditors prefer a bright line "in or out approach" to scoping with the same level of assurance for all in scope processes and controls. We believe this is inappropriate and that a lower level of assurance should be acceptable in lower risk areas. We believe opportunity exists to reduce our overall scope and alter the nature, timing and extent of certain other procedures to both minimize the number of accounts in scope and reduce the level of evidence required and/or the number of items required for test samples in non-critical areas, while still providing appropriate support for management's assessment on the design and effectiveness of internal control over financial reporting.

Another method of improving our company's ability to utilize a top-down, risk-based approach, would be to offer improved guidance and clarification regarding the use of entity-level controls to meet specific account-level financial statement assertions. In our opinion, the external audit interpretation of AS2 has highlighted the fundamental disconnect between a top-down, risk-based approach, which should emphasize entity-level controls, and the requirements from AS2 to link each relevant financial statement assertion for each in-scope account to specific control activities, which emphasizes process-level controls as their applicability to a specific assertion and/or account is more easily established along with the related test for effectiveness. Unfortunately, the ease of establishing account-level coverage with process-level controls also geometrically expands the number of "key" controls in scope. Based on our experience with the external auditors, due to historical techniques used by the firms to justify a reliance-based financial statement audit, process-level controls also appear to provide the external auditors with the greatest level of comfort.

As an accelerated filer, DTG has not invested a great deal of time contemplating the Commission's tiered guidance for foreign private issuers or smaller public companies. However, we do believe that concepts from the COSO guidance for smaller companies do have applicability, even to larger accelerated filers and we would encourage the Commission to acknowledge that even the largest of registrants may have small entities (e.g., retail locations) that are in scope from a "multi-location perspective", but that, for example, may not be staffed to facilitate ideal segregation of duties or other anti-fraud controls in all cases. We believe that guidance should be formulated to address these situations, specifically the necessary flexibility of anti-fraud controls for smaller entities (even if part of large filers), and the applicability of the multi-location guidance from the PCAOB to retail locations as opposed to varying entities of large multinational corporations.

Management's Evaluation

From our perspective, the time and expense related to management's assessment of internal control over financial reporting is not related to the assessment process itself, but rather the underlying scoping and evidentiary issues involved in control documentation and testing.

We would encourage the Commission to provide detailed guidance to registrants and encourage PCAOB conformance within its standards regarding expanded use of entity-level controls from a top-down perspective. The question should not be whether looking at a process-level control would offer "better, closer to absolute" assurance, but rather does examining the entity-level control provide a "reasonable" level of assurance about the effectiveness of the control activity and the related coverage of the relevant financial statement assertions at a lower cost.

In practice, we utilize the *Framework for Evaluating Control Exceptions and Deficiencies* published by the public accounting industry in defining our control deficiencies. Overall and in theory, the framework works well for us with a couple of exceptions. The materiality guidance from the external auditors used to supplement the established definitions for "Significant Deficiency" and "Material Weakness" attempt to create a "bright line" threshold where we ultimately need to rely on judgment to evaluate mitigating or compensating factors, or the judgment of "prudent officials", which we use as a proxy for our shareholders. Therefore, the Commission should consider clarifying whether a bright line threshold is appropriate and provide additional guidance to bring registrants and the external auditor (via PCAOB conformance) into line.

The second area where we believe additional guidance is necessary with regard to the evaluation of deficiencies is related to IT general controls. Currently more than a quarter of the time spent internally and by our external auditors on 404 compliance is spent on IT general control issues. Therefore, we believe there is a need for the Commission to clarify both the scope of IT general controls relevant to management's assessment of internal control over financial reporting, and provide guidance on the evaluation of IT general control deficiencies.

We understand the pervasive nature of IT general controls, but believe that the level of effort currently required is disproportionate to the overall risk. The evaluation of deficiencies in IT general controls is often a speculative exercise as no actual financial statement impact has occurred or can be measured. We do not believe it is the intent of the Act to speculate in the potential, indirect risk of misstatements, but rather to ensure the timely identification of a misstatement should one occur. In our experience, the external auditors take a very conservative approach to scoping IT general controls and rating the related findings, and that the line between an operational control and a financial control is particularly difficult to discern in the IT general control area.

IT general controls are obviously very important to our business and should be reviewed regularly, but the real question is which IT general controls are necessary as part of management's assessment of internal control over financial reporting. In our opinion, relevant IT controls include logical security (access control) as it impacts access to networks and systems, and affects segregation of duties and other anti-fraud controls; and change management which ensures proper control and migration of new systems to the production environment.

On the other hand, many IT controls currently in scope have impacts that we would classify as "operational" in that they could affect financial performance, but not "financial" in that a lack of control effectiveness would not directly lead to a misstatement in the financial statements without detection through non-IT entity-level controls or process-level controls. For example, we would classify IT controls related to physical security as "operational" in that they can affect business continuity and disaster recovery issues, but would not have a direct impact on the accuracy of financial statements. Similarly, we believe IT controls related to problem tracking and resolution, PC support and anti-virus control affect productivity but not financial statements, while pre-production IT system development controls are, from a financial statement perspective, duplicative of change management controls just at a different phase of the system development lifecycle.

Documentation to Support the Assessment
We believe the majority of issues related to control documentation are directly correlated to the scoping issues discussed above. In general, we believe our documentation efforts are appropriate for the level of assurance required. However, we do believe the Commission could enhance guidance surrounding acceptable audit evidence related to the use of entity-level controls.

The expanded use of entity-level controls discussed above would likely involve a shift in the current external auditor mentality regarding evidential matter. We agree that inquiry alone is never sufficient evidence regarding the effectiveness of a control activity. In contrast, we also believe that requiring statistically valid, detailed tests of control for each "key" control activity is unnecessary to provide the required level of assurance both internally and externally. Therefore, we would welcome additional guidance from the Commission expanding the applicability of entity-level controls, emphasizing the maximum reliance on those controls possible, and clarifying the acceptability of varying forms of audit evidence depending on the level of risk for the controls under review.

For example, in low risk areas, we believe it is appropriate to rely on inquiry, observation and walkthrough evidence, expanding to tests of controls with smaller samples (e.g., 90% confidence that the error rate is less than 10%) for medium risk areas, and tests of controls with larger samples (e.g., 95% confidence that the error rate is less than 10%) for high risk areas. Certain important areas may be covered by entity-level "soft" controls such as Disclosure Committee or Audit Committee activities for which tests of controls are difficult to formulate. Guidance is needed on acceptable evidence for entity-level controls, particularly those involving the control environment.

DTG has invested substantial resources in this important initiative and has received benefits. However, we welcome the Commission's Concept Release as long overdue and look forward to additional guidance specifically targeted to registrants that will afford us the opportunity to maximize the value of the Act to our shareholders and other stakeholders by maintaining the benefits achieved through the compliance process while improving the overall efficiency of the effort.

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