

MEMO

INTERNAL AUDIT DIVISION
Keith L. Duckett, Director



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CONFIDENTIAL

TO: M.R. Greenberg

Date: December 7, 1999

RE: *Special Review - Auto Warranty - Status*

- 1) ISI has begun to transfer data to us and we expect that the transfer will be complete by 12/17/99. Once the transfer is complete, we will make the information available for review by the experts. Warrantech has not yet made its information available to us. Chuck, in conjunction with our legal counsel, is intensifying its efforts to obtain the data.
- 2) We continue to analyze the data that we have in house. We have recently identified several inforce contracts for which it appears that premiums were not received. We have forwarded the list of these contracts to the Warranty Division for further research and cancellation if applicable.
- 3) We are still refining our statistical sampling model to be used to select files to be reviewed by the experts. At this point, we are stratifying by dollars as well as by "potential exception buckets". The latter represents transactions most likely to contain errors such as claims reported within 30 days of the contract effective date, or 1000 miles of sale odometer. Claims made within the final 2 month or last 2000 miles of the contract, claims made during the first 36 months or 36,000 miles, and contracts with high frequency (above 2 claims).
- 4) I'm coordinating with J. Portalatin and M. Sullivan to ensure that steps are taken to strengthen controls over the foreign gen warranty bank. I've provided them with a list of things that should be addressed immediately based on the results of our recent review. We will continue to monitor.

cc: C. Schader

Keith L. Duckett

