

PLAINTIFF'S  
EXHIBIT  
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MEMO

INTERNAL AUDIT DIVISION  
*Keith L. Duckett, Director*



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TO: M.R. Greenberg

Date: September 14, 1999

RE: *Special Review - Auto Warranty Business*

In response to your request, the IAD will perform a special review of the warranty business. Although our primary focus will be the automobile book, we will review the consumer product book as well. Our objective is to assess operational and financial controls over the auto warranty book paying particular attention to underlying causes/contributing factors to the recent profitability issues. Our scope will include the following.

- 1) Review of underlying deal negotiation documentation including TPA contracts for propriety.
- 2) Completeness and accuracy of premium and loss data submitted to warranty profit center by TPA's. TPA and profit center controls over adherence to filed rates.
- 3) Assessment of controls over compliance with contractual terms.
- 4) Rate adequacy - the M&R study will give commentary on our rates relative to industry norms. Actuarial is also compiling comparative rate information. We will rely on the work of M&R and actuarial in this regard.
- 5) Claims processing procedures and related controls, including funding and replenishment of claims escrow accounts and reconciliations of loss reimbursements to reported claims.
- 6) TPA selection criteria, authorization, reputation of TPA's selected, etc.
- 7) Assessment of potential for fraud/impropriety related to premium underreporting, claim overreporting, etc.
- 8) Management monitoring of TPA relationships including on site audits, assessment of financial stability, etc.

Weaknesses with respect to items 2,4,5 and 7 were noted in our audit of the Warranty Divisions issued earlier this year (report # 99-45). We will assess the extent to which corrective action has been taken. I will issue an interim report to you within 30 days and a final within 60 days. If you would like to discuss further, please advise.

