

PLAINTIFF'S  
EXHIBIT  
45

MEMO

INTERNAL AUDIT DIVISION  
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CONFIDENTIAL

TO: M.R. Greenberg

Date: January 31, 2000

RE: *Special Review Auto Warranty - Status*

- We have reconstructed the claims imprest accounts (in conjunction with Chuck's group) for NAWS from program inception (June 1995) through 1999. We have identified approximately \$1M in AIG funds that are unaccounted for. These funds relate to imprest fund replenishments not deposited in the claims imprest account and cash transferred from the imprest account to the NAWS operating account. We have presented these initial findings to NAWS for immediate research and resolution. As mentioned in Chuck Schader's 1/12/00 update, if the issue is not resolved satisfactorily, we will initiate legal action. We received the premium trust accounts last week and are in the process of reconciling them.
- With respect to Warrantech, we recently received all of the premium trust and claims imprest account information. Warrantech's accounting records were moved from the Connecticut office to the Texas office in early December. Consequently, Warrantech has only provided information going back to 1997. Warrantech is attempting to locate the missing information. Our initial review of the claims accounts indicates that all claims imprest account reimbursements for this period were deposited into the proper account and not co-mingled with Warrantech operating accounts. We are now confirming that the amounts reimbursed are supported by actual claims payments made by Warrantech. We will also reconcile the premium trust accounts. Separately, the profit center has identified approximately \$3.8M due from Warrantech, which largely relates to unremitted rate increases negotiated in 1998.
- Microfilmed claims files from ISI continue to come in; we have started to receive more files from more recent years. PwC has generated random samples for us; unfortunately, the majority of the contract and/or claim files for the selected items have not yet been received from ISI/Docutek. ISI's filing system is inadequate; this has hindered the speed with which documents have been turned over to Docutek for microfilming. Chuck sent a representative to ISI over a week ago, to coordinate the file turnover process with ISI and Docutek to alleviate disconnects going forward. We expect to receive the remaining documents over the next 3 weeks. In order for our sample to be statistically valid, it is imperative that we maintain the "randomness" of our sample. This requires that we obtain files for the transactions independently selected by PwC as opposed to selecting alternative files. We will give the files to the experts piecemeal as they come in. While we are losing time on the front end, the stat sampling methodology/approach will save us a lot of time and money on the back end.
- We are attempting to force the release of claims files from Warrantech as part of the current legal action. The contract files are in the process of being copied.

cc: C. Schader

