

PLAINTIFF'S
EXHIBIT
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MEMO

INTERNAL AUDIT DIVISION

Keith L. Duckett - Director
175 Water Street - 14th Floor
New York, N.Y. 10038



Tel: (212) 458-3300
Fax: (212) 227-0127

CONFIDENTIAL

TO: M.R. Greenberg

Date: May 31, 2000

RE: Special Review - Auto Warranty - Status

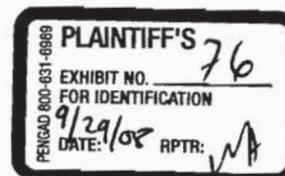
The status of our auto warranty review is as follows:

Warrantech

- We continue to validate cancellations and the accuracy of refund amounts requested by Warrantech as received. We have completed this review for the 1/5/00 - 4/30/00 time period and for the most part the requests were valid. Of the total \$1MM requested by ISI for the past 4 months, we have disputed approximately \$17k (1.7%) due to duplicate entries, policies previously cancelled, policies for which no premiums were received and questionable flat cancellations.
- At the request of outside counsel, we are analyzing the timeliness of cancellation request processing by Warrantech for the April 2000 batch by comparing individual receipt dates from the dealers/insureds to the date the monthly batch was sent to AIG. This is being done in response to an allegation by Warrantech that AIG has been late in processing cancellation refunds. Outside counsel is requesting Warrantech to send biweekly cancellation requests to AIG, commencing June 15, to help assist with more timely cancellation refund processing.
- We have agreed total check and credit card payments by Warrantech through the Z.B.A. account since the 4th quarter of 1997 to the CMO system. We are in the process of reconciling total premiums from Warrantech's premium accounts to premiums reported to AIG.
- We are reevaluating the potential for recovery from Warrantech and the pending legal action to determine the need to perform re-adjudication of Warrantech claims. If determined to be worthwhile, we have received the Warrantech database and determined sample sizes. The establishment of the contract imaging database is expected to be completed within 2 weeks; however, obtaining claim files will be time consuming as they are located at a third party warehouse pending the current legal action with Warrantech.

ISI

- Upon discovery of the financial deterioration of ISI we focused on attempting to identify assets which we could possibly attach as part of any potential claim against the company. We have just received the results of the asset search of ISI and will be coordinating with Legal to assess recovery potential. Based on these results, we will reassess the practicality of continuing our claims re-adjudication process, with a goal of quantifying the extent of claims mishandling and pursuing recovery. The re-adjudication process was delayed due to the recent transfer of claims handling from ISI into AIG (Maitland) and the resulting slow receipt of outstanding contract and claim data from ISI and Docutek (microfilming company).



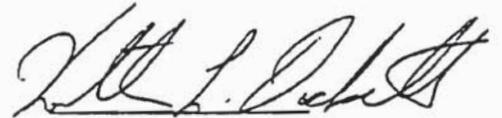
- We expect to begin receiving cancellation refund requests from ISI in June and will be validating the accuracy of refund requests, including ensuring policies were not previously cancelled and policy premium has been received by AIG prior to disbursement of return premiums.

NAWS

- We have reconciled the aggregate reported premiums and claims to the premium trust accounts and check/credit card payments through 11/30/99 and found a \$423K difference between total claim payments by NAWS (\$19MM) and total claims reported to and reimbursed by AIG (\$19.4MM). We have reported this to Legal for potential recovery. We have also completed an asset search and provided results to Legal.

Other

- We are in the process of reviewing check disbursement and credit card payment procedures within the Maitland claims office. We will be scheduling a visit to the office in June or July to ensure adequate controls are in place.
- We have run some EDP reports from the WARP/NATS system and identified suspicious items, including in force policies with \$0 premium, flat cancelled policies with claims paid, and claims paid outside of the effective period. We are in the process of researching these items and determining the potential for recovery from all TPAs.



c.c. C. Schader