STATE OF NORTH DAKOTA

BISMARCK, NORTH DAKOTA

REPORT OF EXAMINATION

OF

GENESIS INDEMNITY INSURANCE COMPANY
STAMFORD, CONNECTICUT

AS OF
DECEMBER 31, 2004

STATE OF NORTH DAKOTA

DEPARTMENT OF INSURANCE

I, the undersigned, Commissioner of Insurance of the State of North Dakota do hereby certify that I have compared the annexed copy of the Report of Examination of the

Genesis Indemnity Insurance Company

Stamford, Connecticut

as of December 31, 2004, with the original on file in this Department and that the same is a correct transcript therefrom and of the whole of said original.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal at my office in the City of Bismarck, this 20th day of October, 2006.

Jim Poolman
Commissioner of Insurance

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Stamford, Connecticut
September 19, 2006

Honorable Alfred W. Gross
Chair, Financial Condition Committee
Subcommittee, NAIC
Commissioner
Bureau of Insurance
Commonwealth of Virginia
Richmond, VA 23218

Honorable Anne Womer Benjamin
Secretary, Midwestern Zone
Director of Insurance
State of Ohio
2100 Stella Court
Columbus, OH 43215

Honorable Jim Poolman
Commissioner of Insurance
State of North Dakota
600 East Boulevard Avenue
Bismarck, ND 58505

Dear Commissioners and Director:

Pursuant to your instructions and statutory requirements, a financial examination has been made of the book, records, and financial condition of:

Genesis Indemnity Insurance Company

Stamford, Connecticut

Genesis Indemnity Insurance Company, hereinafter referred to as the "Company" was last examined as of December 31, 1999, by the North Dakota Insurance Department.

SCOPE OF EXAMINATION

This examination was a financial condition examination conducted in accordance with N. D. Cent. Code § 26.1-03-19.3 and observed guidelines and procedures contained in the National Association of Insurance Commissioners' (NAIC) Financial Condition Examiners Handbook. The examination was conducted to determine the Company's financial condition, its compliance with statutes, and to review the corporate affairs and insurance operations. This statutory examination covers the five-year period beginning January 1, 2000, and ending December 31, 2004, and includes a review and analysis of the Company's operations, verification of assets, and valuation of liabilities as of December 31, 2004. Any material transactions and/or events occurring subsequent to the examination date have also been considered where relevant to the Company's current condition.

All recommendations made in the prior statutory examination report have been adequately addressed by the Company.

This examination was conducted by Examiners from the North Dakota Insurance Department representing the Midwestern Zone.

HISTORY

General

The Company was incorporated on September 27, 1989, under the laws of the State of North Dakota. The Company's primary purpose is to engage in the business of property and casualty insurance. The Company is a wholly-owned subsidiary of General Reinsurance Corporation (GRC), a Delaware domiciled entity, which is ultimately a wholly-owned subsidiary of Berkshire Hathaway, Inc., a Delaware domiciled entity.

Capital Stock

The Company's Amended and Restated Articles of Incorporation authorize the Company to issue 1,000 shares of common capital stock with a par value of $4,200 per share. However, the par value reported in question 18 of the Financial section of the General Interrogatories is $4,100 per share, the amount reported in page 3 for common capital stock was $4,100,000 and the amount reported in the Five-Year Historical Data for capital paid up was $4,100,000 for each year.

At December 31, 2004, the Company had issued all 1,000 shares to its parent, GRC.

It is recommended that the Company correct the amount of the par value of its common stock so that the amounts in the Amended and Restated Articles of Incorporation and annual statement are in agreement.

Dividends to Stockholders

The Company paid no dividends during the period under examination.

Board of Directors

The Bylaws provide that the number of directors shall be established by the Board of Directors or by action of the stockholders but shall not be less than seven. Directors shall be elected at the Annual Meeting of the stockholders and each director shall serve until his successor is elected and qualified.

Although the Bylaws require seven directors, the Board consisted of six directors at December 31, 2004. This situation was rectified by the election of Adam D. Roberts as a director in the following year.

It is recommended that Company comply with its Bylaws and maintain the required number of Directors.

Directors serving at December 31, 2004, were as follows:

Name and Address	Business Affiliations
Joseph P. Brandon Weston, CT	Chairman of the Board General Re Corporation
Barry M. Anderson Trumbull, CT	Senior Vice President Genesis Underwriting Management Company
William G. Gasdaska, Jr. Darien, CT	Chief Financial Officer, Treasurer & Vice President General Re Corporation
Franklin Montross, IV Bedford Hills, NY	President & Chief Underwriting Officer General Re Corporation
Patricia H. Roberts Riverside, CT	President & Chief Executive Officer Genesis Underwriting Management Company
Damon N. Vocke Wilton, CT	Secretary, General Counsel & Vice President General Re Corporation

Officers

The Bylaws provide that the elected officers of the Company shall be a Chairman of the Board, a President, a Vice President, a Treasurer, and a Secretary. Officers serving at December 31, 2004, were as follows:

Name	Title
Joseph P. Brandon	Chairman of the Board
Patricia H. Roberts	President and Chief Executive Officer
William G. Gasdaska, Jr.	Treasurer
Adam D. Roberts *	Secretary

* Although Adam D. Roberts was listed as Secretary on the Jurat page of the Annual Statement, he was not elected to that position until January 3, 2005. The previous Secretary resigned effective December 31, 2004.

Conflict of Interest

The Company requires a conflict of interest statement to be completed annually. However, due to revisions, the conflict of interest statement had not been completed since the 2003 calendar year. It is noted that the conflict of interest statement for 2004 was completed in December 2005.

Corporate Records

There were no amendments to the Bylaws or Articles of Incorporation during the period under examination.

Board of Directors and Stockholders

The minutes of the stockholder and Board of Directors actions for the period under examination were read. All actions were taken by written consents in lieu of meetings and signed by all appropriate parties. In the Action by Written Consent of the Board of Directors signed and dated May 25, 2001, the North Dakota Department of Insurance Report of Examination of the Company dated February 20, 2001, was received and accepted.

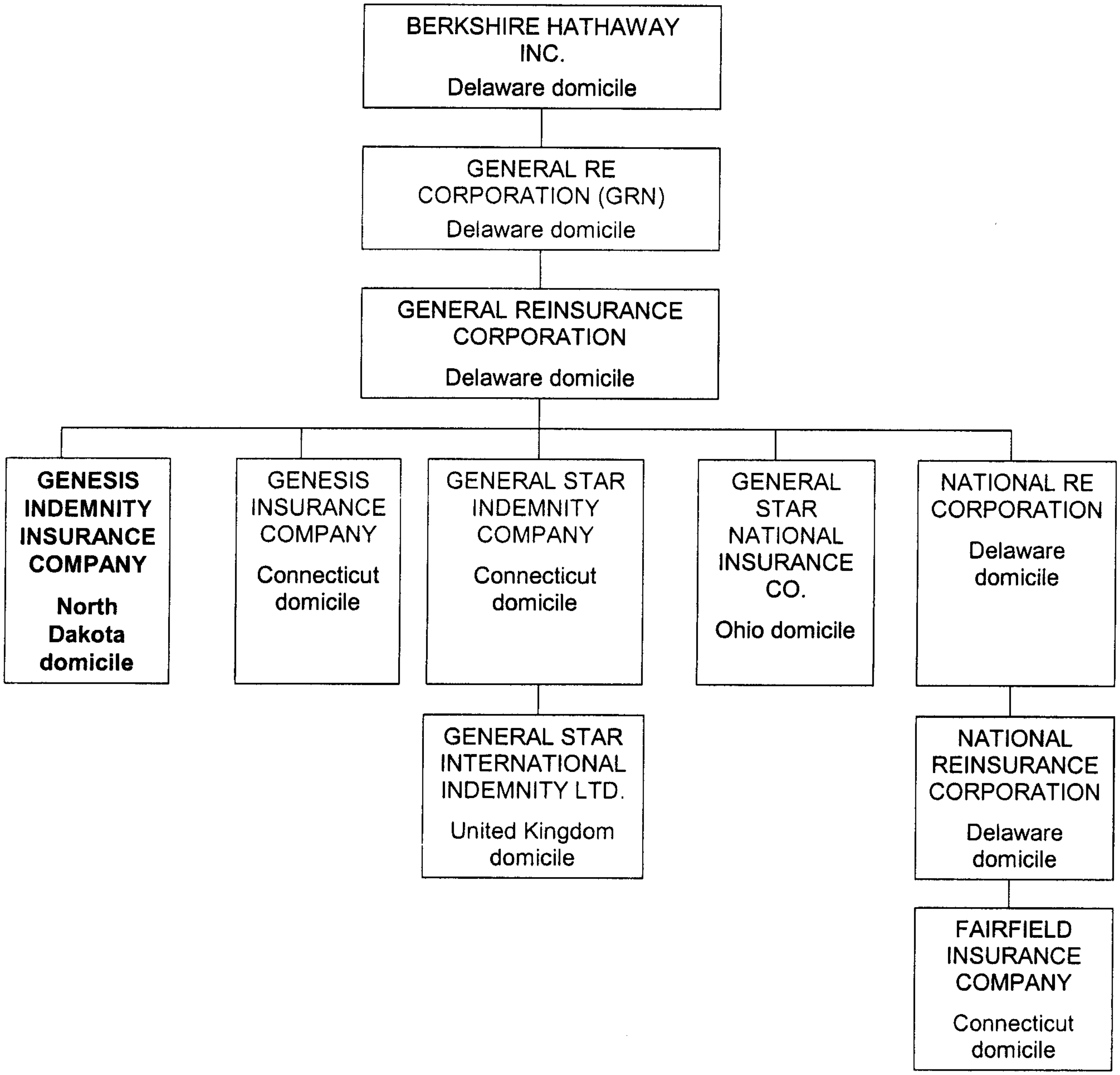
The Board did not elect an Audit Committee during the period of the examination.

AFFILIATED COMPANIES

General

The Company is wholly owned by General Reinsurance Corporation, a Delaware corporation. The ultimate parent is Berkshire Hathaway, Inc. The holding company structure as it pertains to the Company as of December 31, 2004, is depicted in the following chart:

(ABBREVIATED ORGANIZATIONAL CHART)



INTERCOMPANY AGREEMENTS

The Company does not have any employees but has all its services provided by affiliated companies through administration and management agreements or by third-party administrators. Some of those agreements are described below.

Administrative Services Agreement

Effective July 1, 2001, the Company entered into an administrative services agreement with Fairfield Insurance Company, an affiliate. The agreement covers underwriting, administrative and general services provided by Fairfield. The Company will pay all costs, fees and expenses incurred by Fairfield on behalf of the Company within thirty days following the end of the month in which billed.

Underwriting Management Agreement

Effective November 16, 1989, the Company entered into an underwriting management agreement with Genesis Underwriting Management Company (GUMC), an affiliate. A summary of the agreement follows:

- GUMC shall manage the underwriting activities of the Company as they pertain to underwriting the lines of insurance and reinsurance. GUMC agrees to (a) develop sources of production of contracts of insurance and reinsurance for the Company and appoint agents and brokers as needed, (b) underwrite risks submitted by these sources of business, (c) issue the insurance and reinsurance policies and contracts, (d) receive premium due the Company, (e) effect compliance with all applicable laws and regulations, (f) reinsure the risks underwritten when authorized by the Company, and (g) process notices of claims including the establishment of claim reserves.

- All expenses incurred by either on behalf of the other party shall be apportioned and reimbursed as provided in the applicable expense and tax allocation agreements.

- The agreement shall begin on November 16, 1989, and expire on December 31, 1989, and shall automatically renew itself for successive one year terms provided that either party may terminate the agreement at any time on thirty days prior written notice to the other party.

Administrative Agreement

The agreement with General Re Corporation dated September 27, 1989, covers departmental expenses such as corporate administration, investment, underwriting services, legal, and data processing. The agreement provides that the parties shall submit a statement of apportioned expenses within 45 days of the end of each fiscal year.

Consolidated Federal Income Tax Allocation Agreement

The Company and the other entities of the General Re Group holding company system were participants in an agreement dated September 27, 1989, for the allocation of liability due to the consolidated federal income tax return of the General Re Group of companies.

The agreement provides for the total tax liability to be apportioned among members of the group by applying the appropriate current tax rate following the determination of the separate current taxable income or loss for each member of the group. Should the total of the separate tax charges or credits not equal the consolidated tax, any adjustment necessary will be borne by General Re Corporation.

FIDELITY BOND AND OTHER INSURANCE

The Company is covered under a fidelity bond issued to General Re Corporation and its subsidiaries. The bond provides coverage in the amount of $15,000,000 for individual claims and $30,000,000 for all claims. The coverage exceeds the National Association of Insurance Commissioners' recommended minimum amount of fidelity bond coverage for the Company.

Other insurance coverages maintained by General Reinsurance Corporation appeared adequate.

STATUTORY DEPOSITS

The Company maintained the following deposits at December 31, 2004:

Location	Type of Asset	Statement Value	Market Value
Arkansas	Bond	$196,316	$209,446
Louisiana	Bond	$153,231	$153,651
Massachusetts	Bond	$695,965	$846,874
New Mexico	Bond	$99,260	$106,789
Oklahoma	Bond	$99,670	$119,677
South Carolina	Bond	$150,876	$162,319
North Dakota **	Bond	$5,240,349	$5,914,630

** Held for the benefit of all policyholders.

INSURANCE PRODUCTS

At December 31, 2004, the Company was licensed only in the State of North Dakota. The Company writes excess and large deductible insurance coverages for individual and group policyholders on a surplus lines basis.

THIRD PARTY ADMINISTRATORS

The Company has several agreements with third party administrators, none of which were significant enough to meet the requirements for disclosure in the Notes to Financial Statements of the Annual Statement. The following is a description of the most significant of the agreements.

Under an Insurance Services Agreement with the Company, Cover X Corporation provides policy administrative services for certain general liability business written on Company paper. The Company cedes 100% of this business to General Reinsurance Corporation, who then retrocedes 95.1% of the business to First Mercury Insurance Company, an Illinois domiciled insurer. First Mercury Insurance Company adjusts and settles claims for this business pursuant to a Claims Services Agreement with the Company. Cover X Corporation and First Mercury Insurance Company are affiliated entities and are deemed to be third party administrators of the Company. No new business is being issued under this agreement.

REINSURANCE

A review of the reinsurance ceded at December 31, 2004, and the basic coverage in force was as follows:

A.	Type:	Excess of Loss
	Reinsurer:	Columbia Insurance Company, agreement #2279
	Scope:	All lines written by the company.
	Retention:	99% of Net Premium Earned (NPE) less Underwriting Expenses (UE) during term of agreement.
	Coverage:	Part A – The reinsurer shall pay the amount of Ultimate Net Loss (UNL) from loss occurrences commencing during term of agreement in excess of the Company retention (GAAP basis) limited to the lesser of a) $2,000,000,000 or b) the amount by which UNL plus UE exceeds 104% of NPE during the term of this agreement. Part B - Loss occurrences which commenced prior to January 1, 2002, and which UNL increases more than 5% of NPE after that date, the reinsurer shall pay the amount of increase in excess of such 5% but limited to the lesser of a) $2,000,000,000 or b) the amount by which UNL plus UE exceeds 104% of NPE during the term of this agreement.

Premium: 1% of NPE prior to premium for this treaty during the term.

Commissions: N/A

Effective Date: July 2, 2002

Termination: This agreement was commuted in January 2005

The following agreements are closed to new business and are running off the renewal business:

1. Type: Excess of Loss

   Reinsurer: General Reinsurance Corporation

   Scope: Casualty and Property Business

   Coverage: $900,000 excess of $100,000

   Premium: 35% of earned premium amount of insurance written by Company for same risk.

   Commissions: 25%

   Effective Date: January 1, 1995

   Termination: Either party upon 90 days written notice

2. Type: Excess of Loss

   Reinsurer: General Reinsurance Corporation

   Scope: Casualty Business

   Coverage: $24,000,000 excess of $1,000,000

   Premium: 22% of earned premium amount of insurance written by Company for same risk.

   Commissions: 27.5%

   Effective Date: July 1, 1996

   Termination: Either party upon 90 days written notice

3. Type: Surplus Share

   Reinsurer: General Reinsurance Corporation

   Scope: Property business shall mean fire, allied lines, inland marine and commercial multiple peril.

Coverage:	Layered by line guides as shown below.		
	Insurance Written	Company's Share	Reinsurer's Share
Line Guide A	$0 - $1,000,000	Entire Amount	None
	$1,000,000 to $10,000,000	$1,000,000	Remainder not to exceed $9,000,000
Line Guide B	$0 - $750,000	Entire Amount	None
	$750,000 to $7,500,000	$750,000	Remainder not to exceed $6,750,000
Line Guide C	$0 - $500,000	Entire Amount	None
	$500,000 to $5,000,000	$500,000	Remainder not to exceed $4,500,000
Line Guide D	$0 - $250,000	Entire Amount	None
	$250,000 to $2,500,000	$250,000	Remainder not to to exceed $2,250,000

Premium: The reinsurance premium shall be the proportion of the written premium for each risk that the amount of surplus share reinsurance bears to the amount of insurance written by Company for same risk.

Effective Date: July 26, 1990

Commissions: 12.5% up to 22.5%

Termination: Either party may cancel by providing not less than 90 days notice.

The Company uses facultative arrangements with General Reinsurance Corporation to cede 100% of the amount it retains under Line Guides A, B, C, and D.

4. Type: Quota Share

Reinsurers: Various, all licensed or accredited

Scope:

(a) Directors and Officers Liability Insurance Policies covering defined securities and other D&O risks for companies conducting public securities offerings.

(b) Entity Coverage for Prospectus Liability covering defined securities risks for companies conducting initial or subsequent public securities offerings of debt or equity.

(c) Directors and Officers/Entity coverage for Prospectus Liability and Open Market Securities Policies.

(d) Employment Practices Liability Insurance Policies.

	Coverage:	Cover A:	100% of the amount of net loss sustained by the Company with respect to each claim under each policy, but not exceeding the Limit of Liability of the Reinsurer of 100% of $5,000,000 in the aggregate each policy year.
		Cover B:	100% of the amount of net loss sustained by the Company with respect to each claim under each policy in excess of the first $5,000,000 in the aggregate each policy year under each policy, but not exceeding the Limit of Liability of the Reinsurer of 100% of $20,000,000 in the aggregate each policy year.
	Premium:	100%	
	Commissions:	32.5%	
	Effective Date:	January 1, 1994	
	Termination:	This agreement was terminated in December 2005.	
5.	Type:	Excess of Loss & Quota Share	
	Reinsurer:	General Reinsurance Corporation	
	Scope:	General liability business written through third-party administrator, Cover X Corporation	
	Coverage:	100%	
	Premium:	100%	
	Commissions:	35.5%	
	Effective Date:	May 1, 1998	
	Termination:	Either party upon 90 days written notice	

All treaties had appropriate transfer of risk and contained an insolvency clause as required by N.D. Cent. Code § 26.1-02-21.

ACCOUNTS AND RECORDS

The Company's accounting procedures, internal controls, and transaction cycles were reviewed during the course of the examination and a trial balance as of December 31, 2004, was extracted from the general ledger and traced to the appropriate schedules of the Company's 2004 Annual Statement. The Company's ledgers are maintained electronically. Revenues and expenses were tested to the extent deemed necessary.

The Company does not compile formal long-term strategic plans in writing.

It is recommended that the Companies formalize a strategic plan in writing and have the plan reviewed and approved by the Board of Directors.

Information Systems and Controls

The Company's information systems (IS) fall under the controls of GRC. The review of IS controls was performed over the Genserve system, the Company's main insurance processing system.

The IS review was conducted in accordance with NAIC requirements. This included a review of the control environment as identified in the Evaluation of Controls IS Questionnaire from the Handbook.

Although the following deficiencies of the GRC environment were noted, none were so significant as to impair the internal control structure of the Company:

- The Information Security Policy (Policy) primarily addresses users and does not clearly define the roles of management and security personnel in maintaining a secure IS environment. **It is recommended that the Policy define the roles in relation to the specific components of the systems environment (network, mainframe, application systems, wireless, remote access, etc.) and the requirements in maintaining a secure environment (password controls, security monitoring, intrusion detection, virus protection, data center access, etc.).**

- The Company does not have a policy requiring employees to encrypt the transmission of sensitive information. Although the Company handles encryption on a case-by-case basis, a policy is needed to inform employees that sensitive information should not be sent outside the secure network without being encrypted. **It is recommended that the Company develop a policy requiring users to encrypt the transmission of sensitive information and develop procedures that guide users through the encryption process.**

- The Company does not have formal procedures or a definable process in place to monitor the network, servers, or mainframe for security violations. As a result, unauthorized access attempts to files, software, systems, services, or other misuses of access rights may go undetected and unresolved. Although the Company locks out individuals after three invalid login attempts, this does not address attempts to access sensitive data or software utilities. **It is recommended that the Company develop formal procedures to**

monitor system activity on its network, servers, and mainframe for security violations.

- The Company does not have a formal process in place to periodically review the system access rights of all individuals with access to the network and systems. Although the Company has procedures for transfers of associates, the purpose of access reviews is to detect inappropriate access rights that may result from changes in job responsibility (not all changes in responsibility result in a transfer) or inappropriate access being granted in error. **It is recommended that the Company develop formal procedures for reviewing the detail system access rights of every individual with access to the network and related software and systems.**

- The Company does not have an intrusion detection policy or procedures in place to detect unauthorized external access attempts to the Company's internal network and related systems and software. Without an intrusion detection process, unauthorized access attempts through various external gateways mostly go unnoticed and may result in unauthorized access to the Company's computing environment going undetected. **It is recommended that the Company develop an intrusion detection policy with formal procedures and consider the purchase of dedicated intrusion detection software.**

SUBSEQUENT EVENTS

Effective January 1, 2005, with the permission of their domestic insurance regulators, the Company and certain of its North American based property and casualty affiliates entered into a loss portfolio reinsurance contract and a quota share reinsurance contract with two other affiliates, National Indemnity Company and Columbia Insurance Company. The loss portfolio provides for a 50% reinsurance cover on existing net losses as of December 31, 2004. The amount of net reserves ceded on January 1, 2005, was $5 million. There is no surplus gain from this retroactive transaction with affiliates and it will be accounted for as reinsurance. The quota share contract provides for a 50% reinsurance cover on net losses from business transacted on or after January 1, 2005.

FINANCIAL STATEMENTS

The following pages present the Company's financial statements as of December 31, 2004, and an analysis of examination changes in the following order:

Statement of Assets, Liabilities, Surplus and Other Funds, December 31, 2004

Underwriting and Investment Exhibit, Year Ended December 31, 2004

Reconciliation of Capital and Surplus, January 1, 1995 through December 31, 2004

Statement of Cash Flows, Year Ended December 31, 2004

Genesis Indemnity Insurance Company
Statement of Assets, Liabilities, Surplus, and Other Funds
as of December 31, 2004

	Ledger Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$11,395,228		$11,395,228
Cash and cash equivalents	7,190,618		7,190,618
Short-term investments	40,594,115		40,594,115
Receivable for securities	3,800		3,800
Investment income due and accrued	130,241		130,241
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	105,649		105,649
Deferred premiums, agents' balances and installments deferred and not due	64,375		64,375
Amounts recoverable from reinsurers	6,821,095		6,821,095
Net deferred tax asset	840,791	$498,737	342,054
Receivable from parent, subsidiaries, affiliates	300,230		300,230
Aggregate write-ins:			
Funds held by direct writing companies	100,000		100,000
Miscellaneous receivables	52,857		52,857
Totals	$67,598,999	$498,737	$67,100,262

Genesis Indemnity Insurance Company
Statement of Assets, Liabilities, Surplus, and Other Funds
as of December 31, 2004

Liabilities, Surplus and Other Funds

Losses		$ 8,632,673
Loss adjustment expenses		1,391,187
Commissions payable, contingent commissions And other similar expenses		25,000
Current federal and foreign income taxes		568,712
Unearned premiums		3,584,353
Ceded reinsurance premiums payable		617,283
Payable to parent, subsidiaries, and affiliates		974,266
Total Liabilities		15,793,474
Common capital stock	$ 4,100,000	
Gross paid in and contributed surplus	20,900,000	25,000,000
Unassigned funds (surplus)		26,306,788
Surplus as regards policyholders		51,306,788
Total		$67,100,262

Genesis Indemnity Insurance Company
Underwriting and Investment Exhibit
for the Year Ended December 31, 2004

Underwriting Income

Premiums earned		$9,475,781
Deductions:		
Losses incurred	$4,924,573	
Loss expenses incurred	(179,445)	
Other underwriting expenses incurred	2,061,632	
Total Underwriting Deductions		6,806,760
Net Underwriting Gain or (Loss)		$2,669,021

Investment Income

Net investment income earned	$1,295,450	
Net realized capital, gains or (losses)	249,213	
Net investment gain or (loss)		1,544,663
Net income before federal income taxes		$4,213,684
Federal income taxes incurred		1,162,247
Net income		$3,051,437

Genesis Indemnity Insurance Company
Cash Flow
for the Year Ended December 31, 2004

Cash from Operations

Premiums collected net of reinsurance	$7,304,483
Net investment income	1,343,508
Total	8,647,991
Benefit and loss payments	3,247,007
Commission, expenses paid and aggregate write-ins for deductions	2,254,157
Federal income taxes paid	1,181,387
Total	6,682,551
Net cash from operations	$1,965,440

Cash from Investments

Proceeds from investments sold, matured or repaid:	
Bonds	$3,701,298
Miscellaneous proceeds	98,200
Total investment proceeds	$3,799,498
Net cash from investments	$3,799,498

Cash from Financing and Miscellaneous Sources

Cash provided (applied):	
Other cash provided (applied)	$1,383,154
Net cash from financing and miscellaneous sources	$1,383,154

Reconciliation of Cash and Short-Term Investments

Net change in cash and short-term investments	$7,148,092
Cash and short-term investments:	
Beginning of year	40,636,641
End of period	$47,784,733

Genesis Indemnity Insurance Company
Reconciliation of Capital and Surplus Account

	December 31				
	2004	**2003**	**2002**	**2001**	**2000**
Capital and surplus, December 31, prior year	$47,831,097	$46,004,478	$44,402,777	$41,864,375	$39,287,561
Net income	3,051,437	1,536,650	2,070,689	1,878,072	2,585,409
Change in net deferred income tax	(120,520)	257,665	287,536	164,099	0
Change in non-admitted assets	544,774	32,304	(756,524)	190,220	(164,595)
Cumulative effect of changes in accounting principal	0	0	0	306,011	0
Excess of statutory over statement reserves	0	0	0	0	156,000
Net change in capital and surplus for the year	$3,475,691	$1,826,619	$1,601,701	$2,538,402	$2,576,814
Capital and surplus, December 31, current year	$51,306,788	$47,831,097	$46,004,478	$44,402,777	$41,864,375

CONCLUSION

The financial condition of the Company, as of December 31, 2004, as determined by this examination is summarized as follows:

Admitted Assets		$67,100,262
Total Liabilities	$15,793,474	
Surplus as Regards Policyholders	$51,306,788	
Liabilities, Surplus, and Other Funds		$67,100,262

Since the last examination conducted as of December 31, 1999, the Company's admitted assets have increased $17,762,630, its total liabilities have increased $4,870,086, and its surplus as regards policyholders has increased $12,892,544.

In addition to the undersigned, Lisa M. Peterson, CFE, CISA, AES, Joel S. Thomsen, CFE, CPA, of Eide Bailly, L.L.P., and Mike Andring, ACAS, of the North Dakota Insurance Department participated in this examination.

Respectfully submitted,

Norlyn D. Baker, CFE, CPA
Examiner-In-Charge
North Dakota Insurance Department

COMMENTS AND RECOMMENDATIONS

As mentioned in the Capital Stock section, it is recommended that the Company correct the amount of the par value of its common stock so that the amounts in the Amended and Restated Articles of Incorporation and annual statement are in agreement.

As noted in the Board of Directors section, it is recommended that the Company comply with its Bylaws and maintain the required number of Directors.

As noted in the Accounts and Records section, it is recommended that the Company formalize a strategic plan in writing that is reviewed and approved by the Board of Directors.

Comments from the Accounts and Records section of this report regarding Information Systems and Controls are as follows.

Although the following deficiencies of the GRC environment were noted, none were significant enough to impair the internal control structure of the Company:

- The Information Security Policy (Policy) primarily addresses users and does not clearly define the roles of management and security personnel in maintaining a secure IS environment. It is recommended that the Policy define the roles in relation to the specific components of the systems environment (network, mainframe, application systems, wireless, remote access, etc.) and the requirements in maintaining a secure environment (password controls, security monitoring, intrusion detection, virus protection, data center access, etc.).

- The Company does not have a policy requiring employees to encrypt the transmission of sensitive information. Although the Company handles encryption on a case by case basis, a policy is needed to inform employees that sensitive information should not be sent outside the secure network without being encrypted. It is recommended that the Company develop a policy requiring users to encrypt the transmission of sensitive information and develop procedures that guide users through the encryption process.

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- The Company does not have an intrusion detection policy or procedures in place to detect unauthorized external access attempts to the Company's internal network and related systems and software. Without an intrusion detection process, unauthorized access attempts through various external gateways mostly go unnoticed and may result in unauthorized access to the Company's computing environment going undetected. It is recommended that the Company develop an intrusion detection policy with formal procedures and consider the purchase of dedicated intrusion detection software.