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Honda North America, Inc.

Transportation Recall Enhancement, Accountability  
and Documentation (TREAD)  
Reporting Process Assessment

February 12, 2016

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*This report summarizes the procedures performed for the TREAD reporting process assessment and the related observations. The observations discussed in this report are based on documents analyzed and discussions with American Honda Motor Co., Inc. and Honda North America, Inc. conducted as of the date of this report. The observations discussed in this report could change based on the analysis of additional documentation or participation in additional discussions. Deloitte & Touche LLP (“Deloitte & Touche”, “we”, or “our”) reserves the right to amend this report if additional information relevant to our observations becomes available.*

## **BACKGROUND**

As the designee of Honda Motor Co., Ltd., American Honda Motor Co., Inc. (“Honda” or “the Company”) is authorized to fulfill the requirements of the Early Warning Reporting (“EWR”) provisions of the Transportation Recall Enhancement, Accountability and Documentation (“TREAD”) Act, 49 C.F.R. Part 579, Subpart C, et seq.) (the “Act”). The regulations promulgated under the Act require manufacturers of motor vehicles, motor vehicle equipment, child safety systems and tires to submit regularly to the National Highway Traffic Safety Administration (“NHTSA”) certain information and documentation. The purpose of the Act is to enhance motor vehicle safety by specifying information and documents that manufacturers of motor vehicles and motor vehicle equipment must provide to NHTSA with respect to possible safety-related defects and non-compliances in their products, including the reporting of safety recalls and other safety campaigns that the manufacturer conducts outside the United States.

The EWR requirements for OEMs include reporting production numbers, information on incidents involving death or injury, and information concerning property damage claims, consumer complaints, warranty claims and field reports. In connection with certain regulatory proceedings, NHTSA found and Honda agreed that the Company had not fully and accurately reported certain death and injury incidents, customer satisfaction campaigns, special warranty extensions and warranty claims that were required to be reported under the Act.

As a result, NHTSA and Honda agreed upon and executed a consent order setting forth certain requirements and actions that Honda agreed to undertake to resolve the issues regarding Honda’s compliance with the TREAD Act EWR requirements. This “Consent Order” was signed and agreed to by NHTSA and Honda on December 29, 2014.

Among other things, the Consent Order required that Honda develop written procedures for comprehensive early warning reporting and a report detailing Honda's efforts to implement these written procedures. In response to the Consent Order, Honda developed a set of procedures to assist personnel involved with data collection and reporting of TREAD EWR data to NHTSA. The procedures are applicable to all personnel responsible for TREAD Act data collection and reporting and have been referred to by the Company as “TREAD Reporting Procedures.” The TREAD Reporting Procedures prepared by Honda were dated February 27, 2015 and were submitted to NHTSA in accordance with the Consent Order.

In order to further facilitate the implementation of the TREAD Reporting Procedures at Honda, the Company also has undertaken the development of detailed work instructions for Honda personnel responsible for collecting and reporting TREAD data, which have been referred to by the Company as “TREAD Work Instructions.” The Work Instructions support Honda’s TREAD Reporting Procedures submitted to NHTSA by providing operating instructions for compiling and managing relevant data inputs. The Company currently is in the process of further enhancing these TREAD Work Instructions, as continuous improvement changes to the reporting process are implemented. The instructions provide Honda personnel with detailed guidance on the purpose, responsibility, and the required steps to be performed in order to

consistently and reliably implement the TREAD Reporting Procedures.

The Consent Order required Honda to submit to NHTSA a report detailing the findings of a third-party audit<sup>1</sup> (“assessment”) of all Honda’s reporting under 49 C.F.R. Part 579. The report, prepared by Deloitte & Touche and dated August 6, 2015, was submitted to NHTSA in its entirety.

The TREAD Reporting Procedures, the TREAD Work Instructions with ongoing improvements, documented TREAD Training materials, evidence of execution, and interviews with Honda personnel are the primary guiding framework we utilized in performing our assessment.

## **OBJECTIVE**

Paragraph 25 of the Consent Order provides:

One year after execution of the Consent Order, Honda was required to complete a second third-party assessment of all aspects of Honda’s 49 C.F.R. Part 579 TREAD reporting process. Honda must submit to NHTSA a report that details the findings of the assessment, as well as Honda’s efforts to ensure full and timely implementation of the written procedures for comprehensive early warning reporting. In addition, Honda must report on its efforts to train appropriate personnel on its early warning reporting requirements and written procedures for early warning reporting.

In accordance with the foregoing, Honda engaged Deloitte & Touche to provide an assessment of the company’s reporting processes related to the EWR requirements of the TREAD Act in accordance with paragraph 25 of the Consent Order.

<sup>1</sup> *For the purposes of this report, Audit is defined as an ‘assessment’ performed in accordance with the Statement on Standards for Consulting Services issued by the American Institute of Certified Public Accountants (“AICPA”). Our procedures did not constitute an audit of financial statements or otherwise conducted in accordance with generally accepted auditing standards, an examination of internal controls, or other attestation or review services pursuant to standards established by the AICPA, the Public Company Accounting Oversight Board or other regulatory body.*

## **SCOPE**

The foundational scope of our assessment was guided and defined by the above-referenced 49 C.F.R. Part 579 TREAD Reporting Procedures prepared by Honda's Product Regulatory Office ("PRO"), as submitted to NHTSA on February 27, 2015. We utilized the TREAD Reporting Procedures and, to the extent available as of November 1, 2015, Honda's TREAD Work Instructions for purposes of identifying relevant risks and controls performed by the Company related to its compilation and reporting of TREAD data to NHTSA.

From an overview perspective, we performed interviews of key Honda personnel and performed detailed process walkthroughs to obtain an understanding of the updates and changes to the following data input, collection areas, and risks and controls, associated with Honda's compilation and reporting of TREAD data since our initial assessment ending August 6, 2015.

- Production Data
- Death and Injury (United States)
- Death and Injury (Foreign)
- Foreign Recalls and Other Safety Campaigns
- Property Damage Claims
- Consumer Complaints
- Warranty Claims
- Field Reports
- TREAD Reporting Training

The data gathered and utilized for purposes of our assessment covered the period of August 1, 2015 through January 31, 2016 (the "data collection period").

The scope of our review was focused on the risks and controls related to Honda's reporting processes and procedures and did not include an assessment of the accuracy of the underlying incident data associated with Honda's TREAD reports.

## **APPROACH**

As outlined above, utilizing the TREAD Reporting Procedures and available TREAD Work Instructions provided by Honda, we conducted interviews of key Honda personnel and performed detailed process walkthroughs to obtain an understanding of the various business processes supporting Honda's compilation and reporting of TREAD EWR data and information. During these interviews and process walkthroughs, we identified key process risks, as well as the controls in place at Honda to mitigate the risk of inaccurate or incomplete TREAD reporting.

In general, we performed a variety of tests, summarized below, for risks and controls associated with Honda's TREAD reporting processes based on data collected by Honda during the data collection period. Given the fact that Honda's management has continued to refine and enhance

their TREAD Reporting Procedures and related controls based on (a) significant process and IT system improvements resulting from the retroactive repopulation of the TREAD database and (b) recommendations from the first assessment dated August 6, 2015, we determined it most appropriate to base our testing on data and business processes in effect at the beginning of the month following management remediation of noted observations and enhancements of the TREAD Reporting Procedures. This then allowed us to effectively assess the processes in place for the Company’s 2015 third-quarter TREAD reporting. In determining the nature, timing and extent of tests to be performed, we considered:

- Nature and frequency of the controls being tested,
- Types of available evidence,
- Stage of implementation for the control.

Based upon the above, the tests we performed generally included one or more of the following:

Test	Description
Inquiry	Conducted interviews with Honda personnel to obtain evidence that the control was designed, implemented, and/or in operation during the data collection period.
Observation	Observed the performance of the control during the data collection period to evidence implementation and/or operation of the specific control activity.
Inspection	If the implementation or operation of the control was documented during the data collection period, examined documents indicating operation of the control.
Re-performance	Obtained documents used in the operation of the control during the data collection period, and re-performed the procedures based upon our understanding of the control from the walkthrough performed.

## SUMMARY OF RESULTS

As described above, we utilized the TREAD Reporting Procedures and available TREAD Work Instructions as our basis for the assessment of the Company’s TREAD reporting processes. As of the date of this report, Honda continues to refine and develop its TREAD Work Instructions subsequent to our assessment. We utilized those TREAD Work Instructions provided to us by Honda as of November 1, 2015 (“cut-off date”) in our assessment.

Based on our assessment approach described above, it appears that Honda has effectively implemented their February 27, 2015 TREAD Reporting Procedures and has further improved upon their processes and controls to mitigate against the risk of non-compliance since our initial assessment dated August 6, 2015. Honda personnel were fully cooperative in providing documentation and evidence of the identified controls. Honda demonstrated a culture of integrity and willingness to address any observations and enhancements observed during our assessment and address them in a timely manner as part of its continuous improvement efforts.

We observed that the TREAD reporting procedures have been effectively implemented, with significant improvement since our first assessment in the area of mapping accuracy related to Honda's labor operation numbers ("LONs"), part function codes, and allegation codes to NHTSA component codes. However, given that TREAD component categories can be subject to interpretation, Honda continues to focus on continuous improvement in this area to validate consistency with the Company's TREAD Work Instructions. We observed the following:

1. A small number of mapping inconsistencies between Honda internal labor operation numbers ("LONs"), part function codes, and allegation codes to the NHTSA component codes specified within the TREAD Act. This could potentially affect the accuracy of the TREAD reporting categorization.

We also identified areas for management to consider as potential enhancements to the Company's business processes and controls supporting the February 27, 2015 TREAD Reporting Procedures. These enhancements, as communicated to management, fall into the four categories below:

- Continue to streamline and automate the manual data collection and reporting process where possible
- Continue enhancements of internal TREAD training to improve Honda personnel's knowledge of the EWR reporting requirements
- Finalize appropriate documentation and retention of evidence in the performance of the identified controls
- Continue to update and maintain the TREAD Work Instructions to reflect process changes and "best practices"

In summary, based on our assessment approach described above, Honda Management continues to focus on the additional opportunities for continuous improvement which Deloitte & Touche has provided subsequent to our August 6, 2015 report and throughout the course of our current assessment, and has substantially implemented and improved upon the February 27, 2015 TREAD Reporting Procedures.

Deloitte & Touche procedures were performed in accordance with the American Institute of Certified Public Accountants' ("AICPA") Statement on Standards for Consulting Services. Our procedures did not constitute an audit conducted in accordance with generally accepted auditing standards, an examination of internal controls, or other attestation or review services in accordance with standards established by the AICPA, the Public Company Accounting Oversight Board or other regulatory body. The sufficiency of the procedures is solely the responsibility of the Company. Consequently, we make no representation regarding the sufficiency of the procedures described in this report either for the purpose for which this report has been requested or for any other purpose.

Deloitte & Touche cannot rule out the possibility that, had further work been conducted or additional information been available, the observations might have been different or additional matters may have been identified to bring to your attention. Had Deloitte & Touche conducted additional procedures, additional or different observations may have resulted. We call your attention to the possibility that other professionals, including Company's regulators, may perform procedures concerning the same information or data, and perhaps the same accounts and records, and reach different observations than Deloitte & Touche for a variety of reasons, including the possibilities that additional or different information or data might be provided to them that was not provided to Deloitte & Touche, that they might perform different procedures than did Deloitte & Touche, or that professional judgments concerning complex, unusual, or poorly documented matters may differ.

The procedures and observations presented herein rely upon documentation, electronic data and verbal information provided to us by the Company. Should any of the documentation, electronic data and verbal representations or explanations be incorrect or misleading, any observations, or interpretations contained herein may be incomplete and/or may have generated different results, which would require further or amended procedures, outside of the scope of this engagement.

Reports, schedules, documents, or other materials provided by Deloitte & Touche and its related entities are not to be used, in whole or in part, by the Company for any purpose other than in connection with the Consent Order. Reports or other materials issued or prepared by Deloitte & Touche may also be provided to the U.S. Department of Transportation and NHTSA in connection with the Consent Order. Neither the Deloitte & Touche Work Product nor the services by Deloitte & Touche are intended for the express or implied benefit of any third party.