

**City of Detroit**

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**OFFICE OF THE AUDITOR GENERAL**



**Performance Audit of the  
Recreation Department  
July 2007 – June 2009**



# City of Detroit

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LOREN E. MONROE, CPA  
AUDITOR GENERAL

## MEMORANDUM

**DATE:** March 15, 2011

**TO:** Honorable City Council

**FROM:** Loren E. Monroe, CPA *Loren E. Monroe*  
Auditor General

**RE:** Performance Audit of the Recreation Department

**CC:** Mayor Dave Bing  
Norman L. White, Chief Financial Officer  
Alicia Minter, Director

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Attached for your review is our report on the audit of the Recreation Department. This report contains our audit purpose, scope, objectives, methodology, conclusions, and issues for consideration; background; our audit findings and recommendations; and the responses from the Recreation and Finance Departments.

Responsibility for the installation and maintenance of a system of internal control that minimizes errors and provides reasonable safeguards rests entirely with the Recreation Department and the Finance Department. Responsibility for monitoring the implementation of recommendations is set forth in Section 4-205 of the City Charter which states in part:

Recommendations that are not put into effect by the department shall be reviewed by the Finance Director who shall advise the Auditor General and the City Council of the action being taken with respect to the recommendations.

We would like to thank the employees of the Recreation Department for their cooperation and assistance extended to us during this audit.

Copies of all of the Office of the Auditor General reports can be found on our website at [www.detroitmi.gov/CityCouncil/LegislativeAgencies/AuditorGeneral/tabid/2517/Default.aspx](http://www.detroitmi.gov/CityCouncil/LegislativeAgencies/AuditorGeneral/tabid/2517/Default.aspx).

# Performance Audit of the Recreation Department

July 2007 – June 2010

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# AUDIT PURPOSE, SCOPE, OBJECTIVES, METHODOLOGY, CONCLUSIONS AND ISSUES FOR CONSIDERATION

## AUDIT PURPOSE

The audit of the Detroit Recreation Department (Recreation) was performed in accordance with the Office of the Auditor General's (OAG) charter mandate to investigate the administration and operation of all City agencies at least once every two years and report findings and recommendations to the City Council and the Mayor.

## AUDIT SCOPE

The scope of this audit was an independent review and assessment of the effectiveness and efficiency of selected Recreation operations and the department's compliance with Finance Directives, policies, plans, procedures, laws and regulations regarding financial transactions for the period July 1, 2007 through June 30, 2010.

Our audit was conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States, except for the completion of an external peer review of the Office of the Auditor General within the last three years.

## AUDIT OBJECTIVES

The overall audit objectives were:

- To determine Recreation's compliance with Finance Directives, policies, plans, procedures, laws, and regulations; and
- To verify that there is accurate recording and accounting of financial transactions.

## AUDIT METHODOLOGY

To accomplish our audit objectives, our audit work included:

- Reviewing prior audit reports.
- Reviewing of prior audit workpapers, City Charter, Municipal Manual, Detroit Resource Management System reports, budget reports, the Comprehensive Annual Financial Report, and organization charts.
- Gathering policies and procedures of selected core operations and other similar data.
- Conducting an audit-planning meeting to determine the scope and audit objectives.
- Developing questions regarding the Department's transactions, controls, functions, records, and personnel.
- Interviewing department personnel.
- Documenting and testing processes.
- Preparing a risk assessment to determine high-risk areas.

## **CONCLUSIONS**

As a result of our audit we have concluded that:

- Recreation did not fully comply with Finance Directives, policies, plans, procedures, and laws:
  - Recreation did not follow the City's Purchasing Policy.
  - Recreation did not fully adhere to the terms of concession contracts.
  - Recreation failed to obtain City Council approval for certain purchases of services.
- Recreation lacks adequate control over cash receipts.

We also concluded that the Finance Department did not adequately segregate cash receipts duties at Recreation or reconcile Recreation bank accounts timely.

## **ISSUES FOR CONSIDERATION**

1. In February 2005, a former administration directed Recreation to discontinue the practice of requiring individuals to purchase a Recreation membership in order to participate in free activities held at the recreation centers. Currently, free activities include computer classes, tutoring sessions, square dance, flag football, arts and crafts, sewing, tai chi, archery, fencing, game room activities, and swimming.

In our opinion, and in light of the financial challenges facing the City, the ability to recover the costs of providing certain services should always be included as an objective for good financial health. Requiring an annual membership as a prerequisite for participating in certain activities increases Recreation's ability to defray costs of operating and maintaining recreational programming. We recommend Recreation reinstate annual memberships (family, individual) and develop related fees structures.

2. As a result of a prior audit recommendation, the Recreation Department requested the Finance Department to include the fiscal activity of the Recreation Activity Fund (RAF) in Detroit Resource Management System (DRMS). In April 2003, City Council approved a request by the Chief Financial Officer to establish Appropriation 11147 for \$1,000,000 as the RAF. However, the Finance Department failed to initiate action to set up the appropriation and fiscal activity of the RAF in DRMS.

We recommend the Finance Department take the necessary steps to include the fiscal activity of the RAF in DRMS.

## BACKGROUND

The Detroit Recreation Department's (Recreation) origins go back to 1806, when the governor and judges of Michigan laid out Detroit with several public spaces and parks. Belle Isle was purchased in 1879. Several other large parks were developed on land donated by citizens. The Recreation Department is a charter-mandated department of the City of Detroit. According to the Charter, "The Recreation Department shall operate recreation facilities, offer and carry on organized programs of recreation activities, and coordinate all recreational programs and facilities being offered to the City."

Recreation provides opportunities for the public to participate in organized activities in more than 308 parks, 13 recreation centers, outdoor basketball courts, tennis courts, and golf courses it manages. The department also operates specialized facilities such as Historic Fort Wayne, Belle Isle and Henderson Marina; and provides a means for public involvement in cultural arts.

Recreation's core activities include: conducting and overseeing recreational programs, as well as programming for adults, senior citizens, and citizens with physical and emotional disabilities.

The Deputy Director of Recreation during the audit period was Alicia Minter, who is currently the Director.

The following table shows the budgeted appropriations and revenues of Recreation for fiscal years ended 2008 through 2010.

	Fiscal Years Ended June 30		
	<u>2008</u>	<u>2009</u>	<u>2010</u>
Budgeted Appropriations	\$33,830,202	\$30,146,539	\$24,863,352
Budgeted Revenues	<u>6,571,388</u>	<u>2,981,747</u>	<u>1,851,604</u>
Net Tax Cost	<u>\$27,258,814</u>	<u>\$27,164,792</u>	<u>\$23,011,748</u>
Number of Staff	194	194	178

## AUDIT FINDINGS AND RECOMMENDATIONS

### **1. Detroit Recreation Department (Recreation) Intentionally Violated Purchasing Policies and Circumvented City Council Oversight**

Our review of the department's purchasing process revealed Recreation management routinely authorized paying vendors, who should have had professional service contracts, by one-time imprest cash payments. Payments to these vendors were kept under the \$2,000 threshold required for approval from the Finance Department Purchasing Division (Purchasing Division). Accumulated invoices for two vendors exceeded the \$25,000 threshold that requires contracts be approved by City Council.

In 2008, Recreation prepared a contract for one of the vendors and submitted it to City Council for approval. However, City Council did not approve the contract. Nonetheless, Recreation continued its relationship with the vendor despite City Council's ruling. The schedule below summarizes the total amount of invoices for selected vendors for fiscal years 2009-2010, 2008-2009, and 2007-2008.

Vendor	Fiscal Year			Total
	2009-2010	2008-2009	2007-2008	
James Conway Design LLC	\$29,840	\$29,733		\$59,573
Peggy Young & Associates Inc.	\$3,850	\$30,000		\$33,850
Architen Landrell Limited			\$12,110	\$12,110
Progressive Information Technologies LLC			\$18,845	\$18,845

A review of selected purchases from Recreation's records for the audit period indicated a pattern of processing invoices, which circumvented the City's Purchasing policies. For example, four pool ladders were purchased on separate purchase orders for \$1,895. The shipping charges for the ladders were deducted from the invoice and included on a separate purchase order for \$595. All of the purchase orders were prepared on the same day minutes apart. In total, the ladders cost \$8,175, and should have been processed through the Purchasing Division.

The City's purchasing policy mandates that all procurements equaling \$2,000 or more are the responsibility of the Purchasing Division. Circumventing the Purchasing Division's authority to review and process purchase orders and contracts increases the risk that the City will be unable to determine whether it is obtaining the highest level of services and products at the lowest possible cost.

Failure of Recreation to accept City Council's ruling usurps the authority and oversight responsibility provided to City Council by the City Charter and City Code, and establishes a risky governmental precedent. Management has the responsibility to demonstrate accountability to City policies and procedures and to ensure that they are consistently enforced.

The City's budgetary controls are specifically designed to reduce financial risk by preventing uncontrolled and unauthorized use of City funds. The risk that the City will

not achieve its overall financial objectives is increased when established controls are purposely circumvented.

Recreation staff stated that James Conway was a former City employee who retired from his post at Fort Wayne. His expertise was needed to help with renovations currently being completed at Fort Wayne. Mr. Conway's contract was submitted to City Council; however it was not approved because he did not live in the City. According to Recreation, the department endeavored to establish a contractual relationship with Architen Landrell Limited; however, because it is a British company it did not want to enter into a contract with the City of Detroit. Recreation did not provide additional causes for their noncompliance.

**Recommendations**

We recommend Recreation comply with the City's purchasing policies and ordinances. We also recommend Recreation prepare professional service contracts when required, and obtain City Council approval if needed. Finally, we recommend Recreation comply with the rulings of the City Council as it relates to its fiduciary oversight.



## **2. Recreation Management Is Unable to Determine Whether Its Concession Vendor Is Operating Under the Terms of an Approved Contract Amendment**

January 9, 1991, the City Council adopted a resolution that approved a concession contract with American Golf of Detroit to operate Chandler Park, Palmer Park, Rackham and Rouge Park golf courses and the Rouge Parking Driving Range. The contract period was from January 2, 1991 through November 30, 2000, with two options to extend the contract for two additional five-year periods.

As stipulated in the contract, in years 1999 and 2000, American Golf of Detroit was required to pay the City the greater of an annual minimum amount of \$375,000 in concession revenue or 9% of green and cart rental fees; 7% of driving range ball rental fees; and 5% of the sale prices of merchandise, food and beverage.

According to Recreation records, in 2001, Recreation and American Golf of Detroit signed an amended contract increasing the annual minimum amount paid to the City from \$375,000 to \$400,000 in years 2003 and 2004, and \$425,000 for year 2005. The amended contract also provided for a 5-year extension, in which the annual minimum amount paid to the City would increase from \$425,000 to \$450,000 for 2008, 2009, and 2010. However, we were not provided any evidence, i.e., adopted City Council resolution, etc., that the 2001 amended contract was approved by City Council.

To date, American Golf of Detroit has continued to pay the City the annual minimum amount of \$375,000, per the initial January 1991 contract. In our opinion, since December 1, 2000, American Golf of Detroit has been operating Chandler Park, Palmer Park, Rackham and Rouge Park golf courses and the Rouge Parking Driving Range without an approved amendment to the original contract.

Section 18-5-5 of the Detroit Code requires City Council approval of all revenue contracts, including extensions of such contracts. The Recreation Department is in violation of the code by allowing American Golf Corporation to operate and manage the City's golf courses and Rouge Park Driving Range under an expired contract.

Effective managerial controls include securing appropriate contractual agreements. Contractual agreements specify the terms and conditions of the contract and the responsibilities and liabilities of all the parties to the agreement. Contractual relationships should be put in writing and maintained on a current basis. This minimizes the risk of misunderstandings between the parties regarding the terms and conditions of the contract.

Failure to ensure a valid contract was obtained increases the risk that misinterpretations regarding provisions and conditions of the contractor's responsibilities and obligations to the City may occur, and undermines City Council's oversight. If the 2001 amendment had been approved by City Council, concessions revenue would have increased an additional \$425,000 for the years 2001 to 2010.

The Recreation Department management did not know that the contract with American Golf was not current, it was understood that the contract expired in 2010.

## **Recommendations**

We recommend Recreation:

- Comply with Section 18-5-5 of the Detroit Code and obtain City Council's approval on all revenue contracts and amendments.
- Obtain a legal opinion from the Law Department determining whether the annual payments of \$375,000 received from American Golf Corporation since the expiration of the contract are in fact underpayments, and if so take the necessary action to obtain any unpaid amounts.

### **3. Recreation Failed to Obtain Annual Audited Financial Statements from Contractors Employed to Manage City Owned Facilities**

Recreation contracts companies to manage some of the City's recreational facilities. A review of Recreation's financial records revealed that neither the contractor employed to manage Chene Park nor the contractor employed to manage the golf courses is submitting annual audited or certified financial statements to Recreation in accordance to the terms of their contracts.

The Chene Park contract stipulates that a financial audit prepared by a Certified Public Accountant must be submitted no later than March 31 of each year.

The terms of the golf courses contract requires the contractor to furnish a true and accurate statement of all receipts and business transactions of the prior calendar year. An authorized representative of the contractor must certify the statements to be correct. The contractor shall also provide an auditor's certification as to the accuracy of accounting and its methods with each annual statement. The City has the right to require the contractor to provide an audit conducted by an independent auditing firm approved by the City at the expense of the contractor. The City's right to an audit of any year expires three years after the contractor's statement for any year is delivered to the City.

Examining audited financial statements of contractors employed to manage and operate an entity's facilities is a managerial practice designed to aid in determining if the related contracts are cost-effective and/or in determining if the entity is receiving a fair share of revenues generated from the operation of the facilities. These examinations provide information and data necessary to decide if the terms of revenues and/or expenses in the existing contracts need to be amended or to decide if changes to the terms are needed in prospective contracts.

Recreation did not provide a reason why contractors' financial statements are not being examined.

#### **Recommendation**

We recommend that Recreation obtain and examine the audited financial statements of contractors employed to manage City-owned facilities under their purview, and determine whether revenues and expenditures associated with the Recreation facilities are equitable to the City.

#### **4. Recreation Lacks Adequate Controls over Cash Receipts**

Our examination of the cash receipts processes at six recreation centers disclosed several deficiencies in internal controls. An internal control deficiency exists when the design or operation of a control does not allow an entity's management or employees to detect or prevent misstatements, or fraud in a timely fashion. The following deficiencies exist:

- A City of Detroit receipt is not issued for all cash received.
- Patrons of the Recreation Centers do not present a receipt to participate in some activities requiring a payment fee.
- For paid activities at some recreation centers, patrons do not sign in for the classes or activities they participate in.

Internal control includes measures designed to protect cash receipts from theft and to detect any thefts timely.

Failure to issue pre-numbered receipts to patrons and to require them to present a receipt to participate in activities and to sign in for the activities increases the risk of theft or misappropriation of funds.

Recreation center supervisors found it to be very time-consuming to issue receipts for adult open gym, spectator fees, and concession fees. A Recreation employee indicated that adults are not required to show a receipt or sign in to participate in a class. The instructor has a record of persons who signed up for the class.

#### **Recommendations**

We recommend that Recreation:

- Issue a pre-numbered City of Detroit receipt or a cash register receipt with a number for all cash received.
- Require patrons to present a receipt to partake in activities requiring a payment fee and to sign in for the activity.

## FINDINGS RELATED TO THE FINANCE DEPARTMENT

### **1. The Finance Department Did Not Adequately Segregate Cash Receipts Duties at Recreation Department**

Cash receipts duties of the Finance Department staff that performs accounting services for Recreation are not adequately segregated. A Finance Department employee receives Recreation's checks, money orders, and cash; enters the cash receipts in the accounting system (Detroit Resource Management System, or QuickBooks); prepares deposit tickets or Cash Receipts Journal Entry Input Forms; and reconciles deposits before delivery to the bank or the City Treasurer's office for deposit.

United States General Accounting Office Standards for Internal Control in the Federal Government requires key duties and responsibilities be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets. No one individual should control all key aspects of a transaction or event.

Failure to properly segregate duties pertaining to cash receipts increases the risk of misappropriation or theft.

According to Finance Department staff, Central Accounting for Recreation only has three employees, who must also maintain the accounts for the General Services Department and the Department of Public Works.

#### **Recommendation**

We recommend the Finance Department Administration assign an additional employee to segregate the duties of physically handling and recording Recreation's cash receipts.

## **2. There Are Weaknesses in the Finance Department's Bank Reconciliation Procedures for the Recreation Activity Fund**

Our review of the two Recreation Activity Fund bank accounts disclosed that the accounting staff of the Finance Department assigned to perform accounting services for the Recreation did not always reconcile the accounts within forty-five days of the bank statement date. Twenty-four bank reconciliations for each account were reviewed. Twelve of twenty-four bank reconciliations for one account and thirteen of twenty-four bank reconciliations for the other account were not performed timely. It took from forty-six to ninety-three days for one account and forty-six to one hundred twenty-two days for the other account to be reconciled.

We also noted that checks written on one of the Recreation Activity Fund's bank accounts have been outstanding for at least three years.

The Finance Department's Bank Reconciliation policy mandates that City agencies prepare bank reconciliations within forty-five days of the bank statement date and submit them to the Treasurer.

Good controls over checking accounts require that stop payment orders be issued to the bank for checks that are outstanding for more than six months and the total amount of these checks be added to the checkbook balance, and the outstanding checks be placed on an unclaimed roll.

Failure to prepare bank reconciliations in a timely manner increases opportunity for undetected fraud pertaining to the Recreation Activity Fund.

The Finance Department Central Accounting Office for Recreation was unaware of the policy to eliminate unresolved items carried for 180 days or more. According to the Finance Department, Central Accounting only has one accountant dedicated to Recreation's accounting.

### **Recommendations**

We recommend the Finance Department:

- Prepare bank reconciliations of Recreation's bank accounts within forty-five days of bank statement dates.
- Add the total amounts of the outstanding checks to the check book balance; prepare an unclaimed check roll, including the bank name, bank account number, each payee's name, each check number and amount and date, and the purpose of each check;
- Work with the Treasury Department to escheat to the state all checks that have been outstanding for more than a year.

January 24, 2011

Loren E. Monroe, Auditor General  
Office of the Auditor General  
2 Woodward Avenue  
Coleman A. Young Municipal Center, Room 208  
Detroit Michigan 48226

Dear Mr. Monroe:

The following presents the Department's response for the indicated findings and related recommendations in the January 7, 2011 audit of the Department, Performance Audit of the Recreation Department as prepared by the office of the Auditor General.

1. Detroit Recreation Department (Recreation) intentionally Violated Purchasing Policies and Circumvented City Council Oversight

We recommend Recreation comply with the City's purchasing policies and ordinances. We also recommend Recreation prepare professional service contracts when required, and obtain City Council approval if needed. Finally, we recommend Recreation comply with the rulings of the City Council as it relates to its fiduciary oversight.

Department's Response:

*The current Recreation Department Management will cease the practice of violating Purchasing Policies and City Council oversight. We will secure a Personal Services Contract for James Conway, Project Manager – Historic Fort Wayne. All other contracts have been discontinued.*

2. Recreation Management Is Unable to Determine Whether Its Concession Vendor is Operating Under the Terms of an Approved Contract Amendment

We recommend that Recreation:

- Comply with Section 18-5-5 of the Detroit Code and obtain City Council's approval on all revenue contracts and amendments.
- Obtain a legal opinion from the Law Department determining whether the annual payments of \$375,000 received from American Golf Corporation

since the expiration of the contract are in fact underpayments, and if so take the necessary action to obtain any unpaid amounts.

Department's Response:

*American Golf Corporation is no longer managing/operating the golf courses on the behalf of the City. Upon investigation, the department determined that an amendment was submitted to extend the agreement, however it had not been approved. For the future, the department will review all concession/vendor contracts for compliance.*

3. Recreation Failed to Obtain Annual Audit Financial Statements from Contractors Employed to Manage City Owned Facilities

We recommend that Recreation obtain and examine the audited financial statements of contractors employed to manage City-owned facilities under their purview, and determine whether revenues and expenditures associated with the Recreation facilities are equitable to the City.

Department's Response:

*The Recreation Department has received monthly financial statements from the Chene Park contractor (The Right Productions, LLC) however did not secure an audited Annual Statement for the 2009 Season. In the current contract between the City of Detroit and The Right Productions, LLC the department has included provisions in the contract to submit such and have been receiving monthly financial statements and an Annual Audited statement by March of each preceeding year.*

4. Recreation Lacks Adequate Controls over Cash Receipts

We recommend that Recreation:

- Issue a pre-numbered City of Detroit receipt or a cash register receipt with a number for all cash received.
- Require patrons to present a receipt to partake in activities requiring a payment fee and to sign in for the activity.

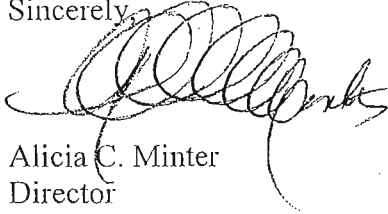


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Department's Response:

*The department strives to be compliant with the Auditor General findings/recommendations and the department will reissue policies on front desk reception, visitor/participant sign-in, and paid activity class attendance sign-in protocol.*

Sincerely,

A handwritten signature in black ink, appearing to read 'Alicia C. Minter', written over a light blue horizontal line.

Alicia C. Minter  
Director



CITY OF DETROIT  
FINANCE DEPARTMENT  
ADMINISTRATION

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March 9, 2011

Loren E. Monroe, Auditor General  
Office of the Auditor General  
2 Woodward Avenue  
Coleman A. Young Municipal Center, Room 208  
Detroit, Michigan 48226

Dear Mr. Monroe:

The following presents the Finance Department's response for the indicated findings and related recommendations in the July 2007 – June 2010 Performance Audit of the Recreation Department, as prepared by the Office of Auditor General. Our response includes the actions taken or to be taken regarding the recommendation, and the implementation dates or the targeted implementation dates for those actions.

1. Finance Department Did Not Adequately Segregate Cash Receipts Duties at Recreation Department.

Department's Response:

The Finance Department does not agree 100% with this statement. Currently, there are four Finance employees (Karva, Potter, Hallam, and Parker) who are able to receive and verify deposits brought by the Recreation Department employees. After the deposit is verified, the money is placed in the safe, Hallam verifies again and prepares the bank deposit paperwork. After the money is deposited, DRMS entries are performed by Potter and Quickbooks entries are performed by Hallam. Finally, bank Reconciliations are performed by Potter. While some duties could be further segregated, it is not possible at this time due to staffing constraints.

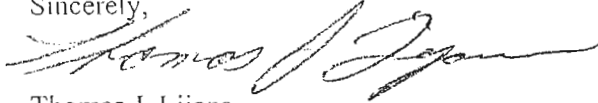
2. There Are Weaknesses in the Finance Department's Bank Reconciliation Procedures for the Recreation Activity Fund.

Department's Response.

The Finance Department staff were not aware of a written procedure requiring bank reconciliations within 45 days. A copy of the directive was requested by the Finance staff and received by the Auditor General's Office in December 2010. We agree that we were not following this policy as required, and have since instituted this requirement and are now in compliance.

With regards to outstanding checks, again Finance staff was unaware of a six month rule and asked the AG's Office for a copy of the policy. That copy was also supplied to Recreation staff in December 2010, and is being instituted. We agree that we were not in compliance at the time of the audit, but we are in compliance now.

Sincerely,

A handwritten signature in black ink, appearing to read "Thomas J. Lijana". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Thomas J. Lijana  
Group Executive/Finance Director

TJL/ec

Cc: Norman L. White, CFO  
Richard A. Young, CAO