

Monday, May 13,1996

To: Prentis Davis,CEO Dolphin Industrues,Inc.

From: Warren H. Brazas

Subject: Recommendations for Financial Controls

The following is a list of controls necessary to aid in Dolphin Industries' future success:

- (1) The following obligations must be paid in accordance with the established schedule:**
 - (a) Payrolls**
 - (b) Internal Revenue & State Taxes**
 - (c) Bank loan repayments**
- (2) All vendors to whom money is owed must be contacted by a responsible party to negotiate the debt. If possible a token payment must be made to each vendor and a schedule established to reflect an orderly repayment of the debt.**
- (3) A professional appraisal of all equipment is required to determine value and for use in future financial negotiations, such as audits,projections,etc.**
- (4) A reserve account must be established for any cash infusion and to be used for paying a,b, &c of number 1.**
- (5) There must be,when available,three bids from subcontractors. The bids must be reviewed by the Controller, CEO, and Production manager. This will eliminate what has occurred whereby the bids were controlled by only one or two certain individuals.**
- (6) Only authorized signers on Dolphin accounts deal with the bank.**
- (7) Salaried personnel should be paid bi-weekly.**
- (8) Subcontractors get paid when we get paid.**
- (9) Formal schedule must be established for invoicing contracts in a timely and efficient manner.**
- (10) Daily cash status to controller by 9:00am daily.**
- (11) Daily AP&AR status to controller by 9:00am daily.**

- (12) Stay with reviewed financial statements. Will be substantially less expensive.**
- (13) Postpone MSR audit until finances are substantially improved.**
- (14) Focus on small boat work and procuring 8(a) set asides from this area.**
- (15) Never miss a contract bid. This can cost substantially.**
- (16) Finish drydock so that Dolphin can handle this without relying on another shipyard.**
- (17) Complete a review of personnel costs per individual salary. This is a good place to look for cuts.**
- (18) Any modifications, change orders, etc. must be in writing.**
- (19) There will be no side deals consumated with subcontractors.**