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June 25, 2018

Mr. Hirobo Obeketang
General Manager
Majuro Resort, Inc.
P.O. Box 1319
Majuro, MH 96960

Dear Mr. Obeketang:

In planning and performing our audit of the financial statements of Majuro Resort, Inc. (MRI) as of and for the year ended September 30, 2017 (on which we have issued our report dated June 25, 2018), in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States, we considered MRI's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of MRI's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of MRI's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting. However, in connection with our audit, we identified, and included in the attached Appendix I, deficiencies related to MRI's internal control over financial reporting as of September 30, 2017 that we wish to bring to your attention.

We have also issued a separate report to the Board of Directors, also dated June 25, 2018, on our consideration of MRI's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.

The definition of a deficiency is also set forth in the attached Appendix I.

A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with this report.

This report is intended solely for the information and use of the management, others within the organization, and the Office of the Auditor-General and is not intended to be and should not be used by anyone other than these specified parties.

We will be pleased to discuss the attached comments with you and, if desired, to assist you in implementing any of the suggestions.

We wish to thank the staff and management of MRI for their cooperation and assistance during the course of this engagement.

Very truly yours,

Deloitte & Touche LLP

## SECTION I - DEFICIENCIES

We identified the following deficiencies involving internal control over financial reporting as of September 30, 2017 that we wish to bring to your attention:

### 1. Fixed Assets

Comment:

- While management tracks the status of recorded fixed assets, such are not subjected to periodic inventories and impairment review. Furthermore, it is difficult to ascertain the location of fixed assets as a tag or other numbering system is not in use. This matter was discussed in our previous audits for fiscal years 2011 through 2016.

- The fixed asset subsidiary ledger was not timely updated for certain additions and disposals during the year that caused variances between the general and the subsidiary ledger.

- Purchases of laptops at a cost that exceeded the $100 capitalization threshold were recorded as office supplies.

Recommendation: We recommend that fixed assets be subjected to periodic physical inventories and periodic review for impairment to facilitate physical inventories. Fixed assets should be assigned unique tag numbers. The subsidiary ledger should be updated timely to minimize opportunity for unreconciled differences. Compliance to the capitalization policy should be strictly observed.

### 2. Hotel System (Guest Tracker) Statistic Report

Comment: The "Statistic Report" generated from Guest Tracker does not provide accurate information as the system counts the house account (e.g. employees' use of restaurant, etc.) as an occupied room. Therefore, the Front Desk Manager manually reconciles the daily "Current Occupied's Report" generated from Guest Tracker which shows all room detail information and inputs the data to a monthly "Schedule of Local Taxes". The monthly "Schedule of Local Taxes" which shows the number of daily rooms occupied, tax exempt transactions, and room taxes is forwarded to the Financial Controller once a month to calculate room occupancy % and average room rate. Although the Financial Controller has been contacting Guest Tracker service personnel, the Company is not currently able to solve the problem so that Guest Tracker can create a correct "Statistic Report". This matter was discussed in our previous audits for fiscal years 2011 through 2016.

Recommendation: We recommend that management improve the guest tracker system to provide accurate information.

### 3. Hotel System back-up

Comment: Although systems back-up regularly occurs for Guest Tracker and QuickBooks and the back-up is stored on an external hard drive, MRI does not currently keep the back-up data outside of the hotel. This matter was discussed in our previous audits for fiscal years 2012 through 2016.

Recommendation: We recommend that management perform regular system back-ups and maintain the data outside of the hotel.

### 4. Journal Voucher Preparation

Comment: Journal vouchers did not evidence review and approval by a person other than the preparer. This matter was discussed in our previous audit for fiscal years 2015 and 2016.

Recommendation: We recommend that journal vouchers be reviewed and approved by an appropriate level of management before posting.

## SECTION I - DEFICIENCIES, CONTINUED

### 5. F&B Invoices

Comment: Certain F&B Reconciliations contained invoice listings summarized in numerical order; however, some invoice numbers were missing/not in the report and/or random invoices not in the sequence were included. Hence, it cannot be determined whether the missing invoices were not used or were used but not reported and as a result, corresponding income could be unrecorded. This matter was discussed in our previous audit for fiscal years 2015 and 2016.

Recommendation: We recommend that management establish heightened controls over ensuring that all F&B invoices are accounted for and are recorded daily to verify completeness of recorded revenue transactions.

### 6. Deposit of Daily Collections

Comment: One validated deposit slip indicated that cash/check collections are not timely deposited by the cashier the next business day but rather, are deposited within the next 2-3 banking days. This matter was discussed in our previous 2015 and 2016 audits.

Recommendation: We recommend management adopt internal control policies and procedures over the completeness of sales transactions and the timely deposit of collections.

### 7. Special Room Rates

Comments:

- One guest was over charged by $3 per night for room accommodations. The utilized rate was not on MIR's published rates.
- 3 of 19 samples tested reflect special room rates approved by the General Manager. However, the special rate forms were not initially attached to the Guest Folio/Invoices.

Recommendation:

- We recommend management periodically review rates charged to guests.
- We recommend management attach special rate forms to the Guest Folio/Invoices to support special guest rates charged.

### 8. Cash Shortages/Overages

Comment: Tests of F&B revenue indicated cash shortages and overages. Employees are charged for shortages or other income unrecognized for overages. There is a risk that an employee could borrow money and offset the shortage so he/she won't be charged.

Recommendation: We recommend that management establish internal control policies and procedures to address cash shortages/overages.

### 9. F&B Reconciliation

Comment: The F&B reconciliation on May 12, 2017 and May 13, 2017 noted erroneous inclusion of customer tips of $7.74 and $11.51, respectively, in *Sales tax*.

Recommendation: We recommend that management establish review processes sufficient to identify errors in the F&B reconciliation.

## SECTION I - DEFICIENCIES, CONTINUED

### 10. Inventories

Comment: The inventory count sheet used to compute food and beverage inventory costs as of September 30, 2017 was not updated. This resulted in an overstatement of inventory by $1,494. Moreover, we noted housekeeping and kitchen (non-food) inventories of $22,035 that have not moved since 2013. Currently, management expenses all purchases of glassware, linen and other housekeeping/kitchen supplies.

Recommendation: We recommend that management 1) implement additional review procedures over inventory counts and costing to minimize errors and 2) formalize its policy on recognizing and recording inventories other than food and beverage.

### 11. Cost of Telephone

Comment: Improper allocation of telephone expense to cost centers resulted in a credit balance of $10,742 in a cost of sales-telephone account.

Recommendation: We recommend that management revisit its current allocation method of common expenses to cost centers.

### 12. Matching of vendor invoice and check voucher

Comment: Overpayment of $71.25 was made to a vendor due to incorrect usage of price per quantity.

Recommendation: We recommend that management match vendor invoices and check vouchers before processing disbursements.

### 13. Employee records

Comment: Inconsistencies in the hiring date/effective date information for two employees were noted on the personnel action form, HR Excel employee records and first paycheck.

Recommendation: We recommend that management verify the consistency of employee information.

### 14. Cash

Comment: The September 30, 2017 bank reconciliations contained 24 checks totaling $4,331 that have been outstanding for more than six months and 45 checks totaling $69,730 that were not released as of September 30, 2017. MRI does not have a policy to separately record stale dated and unreleased checks.

Recommendation: We recommend that management consider establishing a policy over the processing, reconciliation, monitoring and disposition of these checks.

## SECTION I – DEFICIENCIES, CONTINUED

### 15. Missing Documents

Comment:

The following missing/misplaced documents were noted:

a. Purchase orders, check copies and/or vendor invoices related to the following could not be located:

| Reference no. |
|---|
| 48701 |
| 19554 |
| 430968 |
| 3453648 |
| 22109 |
| 21467 |
| 21389 |
| 21706 |

b. Cash count report on October 5, 2016
c. Timesheets of two employees for payroll periods November 1 to 15 and December 16 to 31, respectively

Recommendation: We recommend that management verify the filing and sakekeeping of documents supporting financial transactions.

## SECTION II - DEFINITIONS

The definition of a deficiency is as follows:

A *deficiency* in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when (a) a properly designed control does not operate as designed, or (b) the person performing the control does not possess the necessary authority or competence to perform the control effectively.

## MANAGEMENT'S RESPONSIBILITY FOR, AND THE OBJECTIVES AND LIMITATIONS OF, INTERNAL CONTROL OVER FINANCIAL REPORTING

The following comments concerning management's responsibility for internal control over financial reporting and the objectives and inherent limitations of internal control over financial reporting are adapted from auditing standards generally accepted in the United States of America.

### Management's Responsibility

MRI's management is responsible for the overall accuracy of the financial statements and their conformity with generally accepted accounting principles. In this regard, management is also responsible for establishing and maintaining effective internal control over financial reporting.

### Objectives of Internal Control over Financial Reporting

Internal control over financial reporting is a process affected by those charged with governance, management, and other personnel and designed to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. Internal control over the safeguarding of assets against unauthorized acquisition, use, or disposition may include controls related to financial reporting and operations objectives. Generally, controls that are relevant to an audit of financial statements are those that pertain to the entity's objective of reliable financial reporting (i.e., the preparation of reliable financial statements that are fairly presented in conformity with generally accepted accounting principles).

### Inherent Limitations of Internal Control over Financial Reporting

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.