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June 14, 2019

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, 2018 (on which we have issued our report dated June 14, 2019), 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, 2018 that we wish to bring to your attention.

We have also issued a separate report to the Board of Directors, also dated June 14, 2019, 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, 2018 that we wish to bring to your attention:

1. Unreleased Checks

Comment: The September 30, 2018 bank reconciliations contained 97 unreleased checks totaling $74,836 as of September 30, 2018. MRI does not have a policy to separately record unreleased checks.

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

2. Deposit of Daily Collections

Comment: Based on the samples tested, aggregate cash/check collections of $14,333 were not timely deposited by the cashier the next business day but rather, were deposited within the next 2-5 banking days. This matter was discussed in our previous audits for fiscal years 2015 through 2017.

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

3. Fixed Assets

Comment:

1. No current policy is in place for managing and monitoring capital assets that have a higher exposure to misappropriation.

2. MRI's building improvements are depreciated using the original useful life of the building (16.7 years) without considering the frequency of repairs and the type of improvements.

3. The fixed asset subsidiary ledger was not timely updated for additions ($36,964) and disposals ($17,500) that caused a variance between the general ledger and the subsidiary ledger.

Recommendation: We recommend that 1) assets that have a higher exposure to misappropriation be monitored, 2) estimated useful lives of buildings and building improvements be revisited considering the type of improvements, the frequency of renovations/major repairs and industry-wide practices, and 3) subsidiary ledger be updated timely to minimize opportunity for unreconciled differences.

4. Management Incentives

Comment: Management was paid incentive pay in December 2017 aggregating $11,232 in relation to increased workload in prior months; however, no approval of the Board of Directors (BOD) was available to support the payments. Further, the checks were signed by management.

Recommendation: We recommend decisions and other matters relating to financial incentives to management, other than normal salary, be made by resolution of the BOD and be recorded in the minutes of such meetings. Furthermore, we recommend that all checks payable to management be signed by an appropriate higher level signatory as an additional control.

SECTION I – DEFICIENCIES, CONTINUED

5. Aging of Receivables

Comment: Receivables of $628 and $4,758 were noted to be long outstanding receivables above 90 days and 60 days, respectively, but were erroneously included in the current receivables. The erroneous inclusion in the current receivables is due to the reclassifications between the AR subsidiary ledgers that captured the transfer date as the original transaction date.

Recommendation: We recommend management implement procedures requiring the review and modification of the aging schedule being generated by the system to properly reflect receivables aging.

6. Credit Card Sales

Comment: Long outstanding deposits of $6,814 resulted from uncleared credit card sales. MIR did not investigate the reasons for the rejection.

Recommendation: We recommend management implement internal control procedures to verify the credit card holder's identity and investigate the reasons for the rejection of credit card sales.

7. 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 2017.

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

8. 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 audits for fiscal years 2015 through 2017.

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

9. 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 audits for fiscal years 2015 through 2017.

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

SECTION I – DEFICIENCIES, CONTINUED

10. Cash Shortages/Overages

Comment: Tests of F&B revenue indicated a net cash shortage of $2,182. Per policy, employees should be charged for shortages while overages should be recorded as revenues and be deposited. During the year, MRI stopped charging employees for shortages since management believes that the shortages are primarily a result of incorrect entries.

Recommendation: We recommend management consider the daily 1) reconciliation of reports, 2) identification for the causes of the shortages and overages and 3) posting of correcting entries, if any.

11. Missing Documents

Comment:

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

Reference no.	Amount
0246	$ 10,020
21869	5,100
14060	2,764
21156	1,447
22190	1,393
23813	1,155
22247	755
	$ 22,634

Recommendation: We recommend 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.