

October 18, 2021

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, 2020 (on which we have issued our report dated October 18, 2021), 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 and other matters as of September 30, 2020 that we wish to bring to your attention.

We have also issued a separate report to the Board of Directors, also dated October 18, 2021, 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.

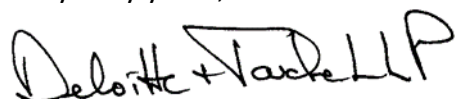
A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with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



## SECTION I - DEFICIENCIES

We identified the following deficiencies involving internal control over financial reporting as of September 30, 2020 that we wish to bring to your attention:

### 1. Bank Reconciliations

The September 30, 2020 bank reconciliation contained 40 checks, totaling \$5,075, that have been outstanding for more than 6 months, 4 checks, totaling \$3,632, that were not released, and a voided check, totaling \$11,119. Audit adjustments were proposed to correct these misstatements. We recommend management establish internal control policies and procedures over the processing, reconciliation, monitoring and disposition of unreleased checks, voided checks and stale checks.

### 2. Daily Bank Deposits

Of 22 room revenue items tested, 8 items totaling \$1,146 were deposited to the bank 2-4 days late. In addition, of 37 food and beverage items tested, 14 items totaling \$27,824 were deposited to the bank 2-5 days after collection. Finally, front desk collections for 09/18/2020 totaling \$475 were deposited to the bank 13 days after collection. We recommend management establish internal control policies and procedures over the completeness of sales transactions and the timely deposit of collections. This matter was discussed in our previous audits for fiscal years 2015 through 2019.

### 3. Management Incentive Payments

During the year ended September 30, 2020, management received incentive pay of \$5,725 in January 2020 in relation to increased workload; however, no Board of Directors approval was available to support the payment. Furthermore, the incentive pay checks were signed by management. We recommend management establish internal control policies and procedures requiring management incentive payments be supported by Board of Directors resolution and require checks payable to management be signed by an appropriate higher-level signatory.

### 4. Credit Card Sales

The September 30, 2020 bank reconciliation included deposits in transit of \$3,484 representing uncleared credit card sales that were not timely investigated to ascertain the reason for rejection. We recommend management establish internal control policies and procedures requiring timely investigation of rejected credit card sales.

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

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". We recommend management improve the guest tracker system to provide accurate information. This matter was discussed in our previous audits for fiscal years 2011 through 2019.

### 6. Missing Documents

Of 6 non-payroll operating expenses tested, 1 item for \$1,417 was not supported by underlying documentation, including vendor invoices/billing statements/quotations, check copies and purchase orders. We recommend management establish internal control policies and procedures requiring the filing and safekeeping of documents supporting financial transactions.

## SECTION II - OTHER MATTERS

Our observations concerning other matters related to operations, compliance with laws and regulations, and best practices involving internal control over financial reporting that we wish to bring to your attention at this time are as follows:

### 1. Guest Tracker (Aging Report)

The guest ledger is incorrectly configured to produce reliable aging of receivables. We verified that long outstanding receivables recorded in the Guest Ledger and subsequently transferred to direct bill captured the date of the reclassification as the starting point for aging. Thus, all long outstanding receivables will be reported as current. Subsequently, the assistant accounting manager manually modifies the aging report generated from the system by tracing the original transaction date of each folio to properly reflect the age of the receivables. We recommend management implement modifications of the Guest Tracker to properly reflect receivable aging.

### 2. Local Noncompliance - RMI Procurement Code

A \$34,730 purchase contract for a Hyundai Truck Flatbed was awarded on September 24, 2019. The procurement process included a competitive sealed bidding process supported by a newspaper advertisement; however, the vendor invoice was dated 3 days prior to the newspaper publication. We recommend management establish internal control policies and procedures requiring compliance with the RMI Procurement Code.

### 3. Unreturned Government Funds

MRI and Pacific Wellness Center entered into a memorandum of agreement with RepMar whereby \$198,400 was made available by RepMar for the purpose of executing healthy living initiatives on Kwajalein Atoll. No funds were expended under the program and \$178,560 was returned to RepMar with MRI recognizing \$19,840 as management fees. An audit adjustment was proposed to reduce management fees and to recognize a liability to RepMar for the remaining unexpended amount. We recommend management refund RepMar the remaining unexpended amount.

### 4. Board Sitting Fees

During the year ended September 30, 2020, MRI paid sitting fees of \$5,400 to Board members. These fees may constitute wages under the Income Tax Act 1989 and thus be subject to withholding taxes. No withholding taxes were withheld by MRI. We recommend management obtain an interpretation from the Ministry of Finance, Banking and Postal Services Chief of Revenue and Taxation concerning the applicability of withholding taxes on sitting fees paid to Board members.

## SECTION III - 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.