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June 9, 2017

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, 2016 (on which we have issued our report dated June 9, 2017), 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, 2016 that we wish to bring to your attention.

We have also issued a separate report to the Board of Directors, also dated June 9, 2017, 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, 2016 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 2015.

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.

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 2015.

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 is stored on an external hard drive, MRI does not currently keep the back-up data outside of the hotel. There is a risk of data loss in the event of an unexpected disaster. In addition, no recent back up dates were provided for Logicare, TCS and BPA systems. This matter was discussed in our previous audits for fiscal years 2012 through 2015.

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

4. Trade Accounts Receivable

Comment: The Guest Ledger Report includes accounts/customers that are no longer staying in the hotel whose records are not yet transferred to the Direct Bill Report as of September 30, 2016. On the other hand, the Direct Bill Report includes various old trade receivable accounts sitting in Guest Ledger that were transferred to Direct Bill in FY16 for which no payments have been subsequently received. These accounts have been provided a 100% allowance as they pertain to 2011 and 2013 accounts and have had no activity.

Recommendation: We recommend that management review the Guest Ledger accounts process and require that this balance contain only receivables from customers residing in the hotel as of September 30, 2016. Also, we recommend that management establish a policy on writing off long outstanding receivables that have been provided with an allowance for which collection is remote.

SECTION I - DEFICIENCIES, CONTINUED

5. Journal Voucher Preparation

Comment: Examined journal vouchers had no evidence of review and approval by a person other than the preparer. This matter was discussed in our previous audit for fiscal year 2015.

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

6. F&B Invoices

Comment: Examined F&B Reconciliations contained invoice listings summarized in a 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 invoice was not used or was used but not reported and corresponding income not recorded. This matter was discussed in our previous audit for fiscal year 2015.

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

7. Deposit of Daily Collections

Comment: Examined validated deposit slips 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 audit.

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

8. Special Room Rates

Comment: Special room rates provided some customers are not supported by written approval from an appropriate level of management. 13 of 32 room revenue samples were charged rates that could not be agreed to MIR published rates. This matter was discussed in our previous audit for fiscal year 2015.

Recommendation: We recommend management document written approvals for customer special rates and the rationale for such rates.

9. Cash Shortages/Overages

Comment: Tests of F&B revenue showed cash shortages and overages. Employees are charged for shortages or other income unrecognized for overages. There is a risk that an employee would borrow steals money and return to 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.

10. Vendor Statements Reconciliation

Comment: Utilities payable to MEC showed a difference of $10,000 per the confirmed balance due to an unreconciled overstatement of the beginning balance and an offset arrangement of $4,863 which was reflected in MEC books but was posted in MIR books at a later date.

Recommendation: We recommend timely monitoring and reconciliation of accounts.

SECTION I - DEFICIENCIES, CONTINUED

11. Employee Listing

Comment: Terminated/resigned employees are reflected on the list of current year employees. This matter was discussed in our previous audit for fiscal year 2015.

Recommendation: We recommend that the employee listing be updated annually to reflect new/terminated/resigned employees.

12. Missing Documents

Comment:

The following missing/misplaced documents was noted:

- 2 of 9 for other operating expenses could not be provided, including vendor invoices/billing statements, check copies and purchase orders/requests supporting Doc#3381751 and Doc#16070
- 4 of 18 for payroll tests were not supported due to missing personnel action forms, timesheets, paychecks, and timecards
- 4 of 60 F&B items tested reflected variances in credit card reconciliations due to missing settlement reports generated from the credit card machine
- 3 of 32 room revenue items tested was not supported by folio invoices, guest registration cards, and deposit slips/credit card receipts.

Recommendation: We recommend that management require filing and safekeeping of documents supporting financial transactions.

SECTION II - DEFINITIONS

The definition of a deficiency is as follows:

A *deficiency* 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.